

12 DIRECTORS' REPORT
(Prepared for the inclusion in this Prospectus)

EXTOL



Your Security Solution Partner

EXTOL MSC Berhad (643683-U)
(Formerly known as Extol Holdings Berhad)
EXTOL Corporation (M) Sdn Bhd (121135-U)
No. 5-5, Jalan USJ 9/5Q,
Subang Business Centre,
47620 UEP-Subang Jaya,
Selangor Darul Ehsan, Malaysia.
Tel: (603) 8024 8166 Fax : (603) 8024 6982



Registered Office

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

20 FEB 2006

The Shareholders of Extol MSC Berhad

Dear Sir/ Madam

On behalf of the Board of Directors of Extol MSC Berhad ("Extol MSC"), I report after due enquiry that during the period from 31 August 2005 (being the date of the last audited proforma accounts of Extol MSC and subsidiaries were made) to **20 FEB 2006** (being a date not earlier than fourteen (14) days before the issuance of this Prospectus) :-

- (i) the business of the Company and its subsidiaries ("Group") have, in the opinion of the Directors, has been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (v) in the opinion of the Directors, they are not aware of since the last audited accounts of the Group where, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (vi) save as disclosed in the Accountants' Report and proforma consolidated balance sheets in this Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Group since the last audited accounts of the Group.

Yours faithfully
For and on behalf of the Board of Directors
Extol MSC Berhad


Justin Tan Seng Kooi
Chief Executive Officer

13 ACCOUNTANTS' REPORT
(Prepared for the inclusion in this Prospectus)

MONTEIRO & HENG

(Firm No. MF0117)

Chartered Accountants



20 February 2006

The Board of Directors
Extol MSC Berhad
Level 14, Uptown 1
No.1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

EXTOL MSC BERHAD
ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by Monteiro & Heng, an approved company auditor, for inclusion in the Prospectus of Extol MSC Berhad ("Extol MSC") to be dated 27 February 2006 in connection with the public issue of 26,100,000 new ordinary shares of RM0.10 each in Extol MSC at an issue price of RM0.30 per ordinary share comprising:-

- 1,000,000 new ordinary shares of RM0.10 each in Extol MSC available for application by the public;
- 7,100,000 new ordinary shares of RM0.10 each in Extol MSC available for application by the eligible directors, employees and business associates of Extol MSC and its subsidiaries; and
- 18,000,000 new ordinary shares of RM0.10 each in Extol MSC available for application under private placement by selected investors,

in conjunction with the listing and quotation for the entire enlarged issued and paid-up share capital of Extol MSC of RM10,440,000 comprising 104,400,000 ordinary shares of RM0.10 each and for the new Extol MSC shares that may be issued upon the exercise of the options to be granted pursuant to its Employees' Share Option Scheme ("ESOS") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

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MONTEIRO & HENG IS A MEMBER FIRM OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING FIRMS

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

2. GENERAL INFORMATION

2.1 Background Information

2.1.1 Extol MSC was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 27 February 2004 under the name of Extol Holdings Sdn. Bhd.. Extol Holdings Sdn. Bhd. was converted to a public limited company under the name of Extol Holdings Berhad on 30 September 2004 and subsequently changed its name from Extol Holdings Berhad to Extol MSC Berhad on 25 November 2004.

2.1.2 The principal activities of Extol MSC are to carry out research and development in Information Communication Technology ("ICT") security system and to provide professional services which are directly or indirectly linked to ICT and of investment holding. On 8 September 2004, Extol MSC was granted the Multimedia Super Corridor ("MSC") status by Multimedia Development Corporation Sdn. Bhd.. On the same date, Extol MSC was awarded the Pioneer Status under Section 4A of the Promotion of Investments (Amendment) Act, 1986.

2.2 Listing Exercise

2.2.1 In conjunction with, and as an integral part of the listing and quotation exercise, Extol MSC has undertaken the following corporate exercises which have been approved by the Securities Commission on 8 September 2005.

a) Acquisition of Extol Corporation Sdn. Bhd. ("Extol Corporation")

Extol MSC had on 17 September 2004 entered into a conditional Share Sale Agreement ("SSA") with Justin Tan Seng Kooi, Lee Choon Kee and Alex Tan Seng Keng ("Extol Corporation Vendors") for the acquisition of the entire issued and paid-up share capital of Extol Corporation comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM6,470,000 to be satisfied entirely by the issuance of 6,470,000 new ordinary shares of RM1.00 each in Extol MSC at par ("Acquisition of Extol Corporation"). The SSA was subsequently supplemented by a supplemental agreement entered with the same parties on 18 October 2005. The acquisition was completed on 19 December 2005.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

2. GENERAL INFORMATION (Continued)

2.2 Listing Exercise (Continued)

b) Acquisition of Extol Marketing Sdn. Bhd. ("Extol Marketing")

Extol MSC had on 17 September 2004 entered into a conditional SSA with Justin Tan Seng Kooi and Alex Tan Seng Keng ("Extol Marketing Vendors") for the acquisition of the entire issued and paid-up share capital of Extol Marketing comprising 2 ordinary shares of RM1.00 each for a purchase consideration of RM100,000 to be satisfied entirely by the issuance of 100,000 new ordinary shares of RM1.00 each in Extol MSC at par ("Acquisition of Extol Marketing"). The SSA was subsequently varied and supplemented by a supplemental agreement entered with the same parties on 18 October 2005. The acquisition was completed on 19 December 2005.

c) Subdivision of Shares

Upon the completion of the Acquisition of Extol Corporation and Acquisition of Extol Marketing, Extol MSC has undertaken a Subdivision of Shares whereby every existing one (1) ordinary share of RM1.00 each in Extol MSC was sub-divided into ten (10) new ordinary shares of RM0.10 each ("Subdivision of Shares"). The Subdivision of Shares was completed on 3 January 2006.

d) Transfer of Shares To Employees

Justin Tan Seng Kooi offered to transfer 2,320,000 ordinary shares of RM0.10 each of his shares in Extol MSC to selected employees within Extol MSC and its subsidiaries ("Extol Group"). The transfer was completed on 20 January 2006.

e) Public Issue

In conjunction with the listing and quotation of the entire issued and paid-up share capital of Extol MSC on the MESDAQ Market of Bursa Securities, Extol MSC will issue 26,100,000 new ordinary shares of RM0.10 each in Extol MSC representing 25% of the enlarged issued and paid-up share capital of Extol MSC comprising 104,400,000 ordinary shares at an issue price of RM0.30 per share as follows:-

- (i) 1,000,000 new ordinary shares of RM0.10 in Extol MSC each available for application by the public;
- (ii) 7,100,000 new ordinary shares of RM0.10 each in Extol MSC available for application by the eligible directors, employees and business associates of Extol MSC and its subsidiaries; and
- (iii) 18,000,000 new ordinary shares of RM0.10 each in Extol MSC available for application under private placement by selected investors.



13 ACCOUNTANTS' REPORT (Cont'd)

(Prepared for the inclusion in this Prospectus)

2. GENERAL INFORMATION (Continued)

2.2 Listing Exercise (Continued)

f) Listing and Quotation

The listing exercise was approved by the Securities Commission on 8 September 2005, 10 February 2006 and 20 February 2006. The approval-in-principle for the admission of the entire enlarged issued and paid-up share capital of Extol MSC to the official list of the MESDAQ Market, including shares that may be issued pursuant to the exercise of options granted under the ESOS, has been obtained from Bursa Securities on 14 February 2006.

g) ESOS

In conjunction with the listing exercise, Extol MSC will implement an ESOS involving the issuance of up to 10% of Extol MSC's issued and paid-up share capital at any time during the existence of the ESOS. Options under the ESOS will be granted to eligible directors (in both executive and non-executive capacity) and employees of Extol MSC and its subsidiaries ("Extol Group").

2.3 Share Capital

2.3.1 The authorised share capital of Extol MSC was RM100,000 comprising 100,000 ordinary shares of RM1 each and its issued and paid-up share capital was RM2 comprising 2 ordinary shares of RM1 each on the date of incorporation. The ordinary shares of RM1 each were subsequently sub-divided to ordinary shares of RM0.10 each on 3 January 2006. The present authorised share capital of Extol MSC is RM25,000,000, comprising 250,000,000 ordinary shares of RM0.10 each and the current issued and paid up share capital is RM7,830,000 comprising 78,300,000 ordinary shares of RM0.10 each.

2.3.2 The movements in the issued and paid-up share capital of Extol MSC since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares of RM1 each Allotted	Par Value RM	Consideration	Cumulative Issued and Paid-up Capital RM
27.2.2004	2	1.00	Subscribers' shares	2
17.9.2004	1,259,998	1.00	Cash	1,260,000
19.12.2005	6,470,000	1.00	Acquisition of Extol Corporation	7,730,000
19.12.2005	100,000	1.00	Acquisition of Extol Marketing	7,830,000
3.1.2006	78,300,000	0.10	Subdivision of shares	7,830,000



13 ACCOUNTANTS' REPORT (Cont'd)

(Prepared for the inclusion in this Prospectus)

2. GENERAL INFORMATION (Continued)

2.3 Share Capital

2.3.3 Upon completion of the public issue as detailed in Section 2.2(e), the issued and paid-up share capital of Extol MSC will be enlarged to RM10,440,000 comprising 104,400,000 ordinary shares of RM0.10 each.

2.3.4 Upon full exercise of the ESOS as detailed in Section 2.2(g), the issued and paid-up share capital of Extol MSC will increase to RM11,484,000 comprising 114,840,000 ordinary shares of RM0.10 each.

2.4 Subsidiaries

2.4.1 Details of the subsidiaries of Extol MSC at the date of this report, which are all incorporated in Malaysia under the Companies Act, 1965, are as follows:-

Company Name	Date of Incorporation	Issued and Paid-up Share Capital	Effective Equity Interest	Principal Activity
Direct Subsidiary companies				
Extol Corporation	7 June 1984	RM2,500,000	100%	Sale, research and development of security technology, security maintenance and professional security services and training
Extol Marketing	31 March 2004	RM2	100%	Trading of computer hardware, software, related equipment and software development



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

2. GENERAL INFORMATION (Continued)

3. DIVIDENDS

No dividends have been paid or declared by Extol MSC since its date of incorporation.

4. FINANCIAL STATEMENTS AND AUDITORS

The financial year end of Extol MSC and its subsidiaries is 31 December.

Messrs. C. K. Cheah & Co. was appointed as the auditors for Extol MSC, Extol Corporation and Extol Marketing since the dates of incorporation.

The financial statements of Extol MSC, Extol Corporation and Extol Marketing ("Extol Group") for the financial years/period under review were reported upon without any qualifications.

5. ACCOUNTING POLICIES AND STANDARDS

- 5.1 This report is prepared on a basis consistent with the accounting policies normally adopted by Extol Group and in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS

6.1 Summarised Proforma Consolidated Income Statements of Extol Group

The summarised proforma consolidated audited financial results of Extol Group for the five (5) financial years ended from 31 December 2000 to 2004 and the eight (8) months financial period ended 31 August 2005 as set out below, are for illustrative purposes only and have been prepared on the assumption that Extol Group has been in existence throughout the years/period under review.

	← Years Ended 31 December →					8 Months Period Ended
	2000	2001	2002	2003	2004	31 August 2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	6,820	6,395	7,353	7,554	8,599	7,264
Cost of Sales	(5,149)	(4,830)	(5,469)	(5,116)	(4,051)	(2,956)
Gross Profit	1,671	1,565	1,884	2,438	4,548	4,308
Profit before interest, depreciation and taxation	378	358	491	1,154	2,381	2,686
Interest expense	(129)	(113)	(133)	(128)	(101)	(66)
Depreciation	(208)	(172)	(125)	(76)	(359)	(263)
Profit before exceptional items	41	73	233	950	1,921	2,357
Exceptional items	-	-	-	-	-	-
Profit before taxation	41	73	233	950	1,921	2,357
Taxation	(1)	(45)	(96)	(311)	(260)	(253)
Net profit for the years/period	40	28	137	639	1,661	2,104
Number of ordinary shares assumed to be in issue of RM0.10 each ('000) *	78,300	78,300	78,300	78,300	78,300	78,300
Gross EPS (sen)	0.05	0.09	0.30	1.21	2.45	**4.52
Net EPS (sen)	0.05	0.04	0.18	0.82	2.12	***4.03

* Number of shares in issue after the Acquisition of Extol Corporation and the Acquisition of Extol Marketing and Subdivision of Shares but prior to the public issue and ESOS.

** Based on annualised profit before taxation of approximately RM3.536 million, the annualised gross EPS is approximately 4.52 sen.
Based on audited profit before taxation of approximately RM2.357 million for the eight (8) months financial period ended 31 August 2005, the gross EPS is approximately 3.01 sen.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.1 Summarised Proforma Consolidated Income Statements of Extol Group (Continued)

*** Based on annualised profit after taxation of approximately RM3.156 million, the annualised net EPS is approximately 4.03 sen.
Based on audited profit after taxation of approximately RM2.104 million for the eight (8) months financial period ended 31 August 2005, the net EPS is approximately 2.69 sen.

6.1.1 Basis of Consolidation

6.1.1.1 The summarised proforma consolidated income statements of Extol Group are prepared for illustrative purposes only and have been presented based on the assumption that Extol Group has been in existence throughout the years/period under review. The proforma consolidated income statements are based on the audited results of Extol Group as follows:-

Extol MSC : For the financial period from the date of incorporation on 27 February 2004 to 31 December 2004 and the eight (8) months financial period ended 31 August 2005.

Extol Corporation : For the five (5) financial years ended 31 December 2000 to 2004 and the eight (8) months financial period ended 31 August 2005.

Extol Marketing : For the financial period from the date of incorporation on 31 March 2004 to 31 December 2004 and the eight (8) months financial period ended 31 August 2005.

6.1.1.2 The summarised proforma consolidated income statements for the financial years/period under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements of Extol MSC and its subsidiaries.

6.1.1.3 All significant intra-group transactions are eliminated on consolidation and the summarised proforma consolidated income statements reflect external transactions only.

6.1.1.4 The summarised proforma consolidated income statements for the financial years/period under review are arrived at after incorporating the following adjustments:-

(a) exclusion of gross dividend income of RM1,500,000 received from a former subsidiary company by Extol Corporation and reversal of the related tax effect of RM420,000 for the financial year 2000; and

(b) adjustments for the underprovision of taxation to its respective financial years.

6.1.1.5 There is no minority interest in the financial years/period under review.



13 ACCOUNTANTS' REPORT (Cont'd)
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6. SUMMARISED INCOME STATEMENTS (Continued)

6.2 Notes to the Summarised Proforma Consolidated Income Statements (Continued)

6.2.1 Revenue

	← Years ended 31 December →					8 Months Period Ended
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	31 Aug 2005 RM'000
Revenue	6,820	6,395	7,353	7,554	8,599	7,264
Revenue Growth Rate (%)	N/A	(6.23)	14.98	2.73	13.83	* 26.71

*Calculated based on annualised revenue of approximately RM10.896 million.
N/A : Not applicable

Products	← Years ended 31 December →										8 Months Period ended	
	2000		2001		2002		2003		2004		31 Aug 2005	
	RM000	%	RM000	%	RM000	%	RM000	%	RM000	%	RM000	%
Anti-virus												
Software (Armour)	796	12	776	12	572	8	412	5	331	4	147	2
Managed												
Security Solutions ("MSS")	4,290	63	4,492	70	6,536	89	6,910	92	7,534	88	6,556	90
Secured												
Enterprise Applications	-	-	-	-	-	-	-	-	734	8	561	8
Others	1,734	25	1,127	18	245	3	232	3	-	-	-	-
	6,820	100	6,395	100	7,353	100	7,554	100	8,599	100	7,264	100

In general, revenue contribution from Managed Securities Solutions ("MSS") for the five (5) financial years ended ("FYE") 31 December 2000 to 2004 and the eight (8) months financial period ended ("FPE") 31 August 2005 recorded an increasing trend while revenue contribution from sale of Armour anti-virus software showed a decreasing trend.

Proforma revenue for the FYE2000 to the FYE2003 were contributed purely by Extol Corporation and represents income from sale of software and hardware for MSS and the provision of related services such as implementation, consultation, training and maintenance.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.2 Notes to the Summarised Proforma Consolidated Income Statements (Continued)

6.2.1 Revenue (Continued)

Proforma revenue for the FYE2004 and the FPE2005 also includes contribution from Extol MSC upon its commencement of operations from sale of software and hardware for MSS and the provision of related services such as implementation, consultation, training and maintenance.

Revenue for the FYE2001 was lower by 6.23% compared with the FYE2000, mainly due to a reduction of 35.01% in the revenue of Extol Corporation classified under 'others'. Fewer contracts were awarded by a main customer in the port management industry who underwent a merger exercise.

In the FYE2002, the growth rate of proforma revenue of Extol Group increased to 14.98% as compared with the FYE2001. The increase in proforma revenue was attributable to the substantial growth in revenue contribution from MSS of 45.50%, as Extol Corporation was able to secure major contracts from existing and new clients in the financial services sector due to its established reputation in the market.

The FYE2003 exhibited further growth in proforma revenue of 5.72% from the MSS segment.

The proforma revenue for the FYE2004 and annualised FPE2005 were 13.83% and 26.71% higher than the FYE2003 and the FYE2004 respectively. This is mainly due to the higher contributions from the MSS segment which achieved a growth rate of 9.03% and 30.53% for the FYE2004 and the FPE2005 (annualised) respectively as Extol MSC and Extol Corporation were able to secure more contracts from existing and new clients especially in the telecommunication and financial services sector.

6.2.2 Extraordinary and Exceptional Items

There were no extraordinary and exceptional items during the financial years/period under review.

6.2.3 Taxation

The effective tax rate for the FYE2000 was lower than the statutory tax rate due to the gain on disposal of the non-qualifying portion of a motor vehicle which was not taxable.

The effective tax rate for the FYE2001 was higher than the statutory tax rate mainly due the interest restriction on borrowing costs which was non-deductible for tax reporting purposes.



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6. SUMMARISED INCOME STATEMENTS (Continued)

6.2 Notes to the Summarised Proforma Consolidated Income Statements (Continued)

6.2.3 Taxation (Continued)

The effective tax rates for the FYE2002 and the FYE2003 were higher than the statutory tax rate due principally to certain expenses being disallowed for tax reporting purposes.

The effective tax rate for the FYE2004 and the FPE2005 were lower than the statutory tax rate as Extol MSC had been awarded the Pioneer Status under Section 4A of the Promotion of Investments (Amendment) Act, 1986 and the utilisation of unabsorbed capital allowances brought forward by Extol Corporation.

6.2.4 Earnings Per Ordinary Share ("EPS")

Gross EPS is computed based on the profit before taxation and the number of ordinary shares of RM0.10 each in issue.

Net EPS is computed based on the profit after taxation and the number of ordinary shares of RM0.10 each in issue.

The number of shares in issue is based on the enlarged issued and paid-up share capital of Extol MSC after the issuance of shares as considerations for the Acquisitions of Extol Corporation and Extol Marketing and the Subdivision of Shares, but before the public issue, i.e. 78,300,000 ordinary shares of RM0.10 each in Extol MSC.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.3 Summarised Income Statements of Extol MSC and Its Subsidiaries

The summarised income statements of each of the companies within the Extol Group based on the audited financial statements for the past years/periods under review, after incorporating such adjustments as we considered necessary, are as follows:-

6.3.1 Summarised Income Statements of Extol MSC

6.3.1.1 The summarised income statements of Extol MSC based on the audited financial statements for the financial period from the date of incorporation on 27 February 2004 to 31 December 2004 and the eight (8) months financial period ended 31 August 2005 are set out below:-

	←← Periods ended →→	
	31 December 2004 RM'000	31 August 2005 RM'000
Revenue	1,692	3,040
Cost of Sales	(440)	(715)
Gross Profit	1,252	2,325
Profit before interest, depreciaiton and taxation	891	1,527
Interest expense	-	(2)
Depreciation	(4)	(7)
Profit before exceptional items	887	1,518
Exceptional items	-	-
Profit before taxation	887	1,518
Taxation	-	-
Net profit for the periods	887	1,518
Weighted average number of ordinary shares of RM1.00 each	1	1,260,000
Gross EPS (RM)	* 1,050.63	** 1.81
Net EPS (RM)	* 1,050.63	** 1.81
Gross dividend rate (%)	-	-

* Computed based on annualised profit before taxation and annualised profit after taxation of RM1,050,630.

** Computed based on annualised profit before taxation and annualised profit after taxation of RM2,276,945.



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6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.1 Summarised Income Statements of Extol MSC (Continued)

Notes:-

(a) Revenue

	Periods Ended	
	31 December	31 August
	2004	2005
	RM'000	RM'000
Revenue	1,692	3,040
Revenue Growth Rate (%)	N/A	* 127.54

* Calculated based on annualised revenue for the FPE 2004 and FPE 2005 of approximately RM2.004 million and RM4.560 million respectively.

Products	Periods Ended			
	31 December		31 August	
	2004	2005	2004	2005
	RM'000	%	RM'000	%
Anti-virus				
Software (Armour)	133	8	57	2
Managed				
Security Services ("MSS")	1,130	67	2,422	80
Secured				
Enterprise Applications	429	25	561	18
	1,692	100	3,040	100

Revenue represents income from sale of software and hardware for MSS and the provision of related services such as implementation, consultation, training and maintenance.

Extol MSC began its operations in September 2004 and was granted MSC status on 8 September 2004.

The increase in annualised revenue for the FPE2005 of 127.54% as compared to the annualised revenue for the FPE2004 was due to the substantial growth in annualised revenue from MSS segment of 171.43%. The increase is primarily due to Extol MSC securing major contracts from existing and new clients.



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6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.1 Summarised Income Statements of Extol MSC (Continued)

Notes:-

(b) Extraordinary and Exceptional Items

There were no extraordinary and exceptional items during the financial periods under review.

(c) Taxation

Extol MSC is not subjected to tax as Extol MSC was awarded the Pioneer Status under Section 4A of the Promotion of Investments (Amendment) Act, 1986.

As at 31 August 2005, subject to the agreement with the tax authorities, Extol MSC has tax exempt income amounting to approximately RM1,243,000 which can be utilised to pay tax exempt dividend.

(d) Profit per Ordinary Share ("EPS")

Gross EPS is calculated based on the annualised profit before taxation on the number of shares in issue during each of the respective financial periods under review.

Net EPS is calculated based on the annualised profit after taxation on the number of shares in issue during each of the respective financial periods under review.



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6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.2 Summarised Income Statements of Extol Corporation

6.3.2.1 The summarised income statements of Extol Corporation based on its audited financial statements for the financial years/period under review, modified to incorporate the adjustments for under/(over)provision of taxation to its respective financial years/period, are set out below:-

	← Years Ended 31 December → 31 August					
	2000	2001	2002	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	6,820	6,395	7,353	7,554	7,918	6,138
Cost of Sales	(5,149)	(4,830)	(5,469)	(5,116)	(4,752)	(4,155)
Gross Profit	1,671	1,565	1,884	2,438	3,166	1,983
Profit before interest, depreciation and taxation	* 1,878	358	491	1,154	1,369	1,161
Interest expense	(129)	(113)	(133)	(128)	(101)	(64)
Depreciation	(208)	(172)	(125)	(76)	(355)	(256)
Profit before exceptional items	1,541	73	233	950	913	841
Exceptional items	-	-	-	-	-	-
Profit before taxation	1,541	73	233	950	913	841
Taxation	(421)	(45)	(96)	(311)	(235)	(253)
Net profit for the years/period	1,120	28	137	639	678	588
Number of ordinary shares of RM1 each ('000)	2,500	2,500	2,500	2,500	2,500	2,500
Gross EPS (sen)	61.64	2.92	9.32	38.00	36.52	** 50.55
Net EPS (sen)	44.78	1.12	5.49	25.56	27.12	*** 35.32
Gross dividend rate (%)	-	-	-	80.00	-	-

* Inclusive dividend income received from a former subsidiary company of RM1.5 million.

** Based on annualised profit before taxation of approximately RM1,263,774.

*** Based on annualised profit after taxation of approximately RM882,977.



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6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.2 Summarised Income Statements of Extol Corporation (Continued)

Notes:-

(a) Revenue

	← Years ended 31 December →					8 Months Period Ended
	2000	2001	2002	2003	2004	31 Aug 2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	6,820	6,395	7,353	7,554	7,918	6,138
Revenue Growth Rate (%)	(7.79)	(6.23)	14.98	2.73	4.82	* 16.28

* Calculated based on annualised revenue of approximately RM9.207 million.

Products	← Years ended 31 December →										8 Months Period ended	
	2000		2001		2002		2003		2004		31 August 2005	
	RM000	%	RM000	%	RM000	%	RM000	%	RM000	%	RM000	%
Anti-virus												
Software (Armour)	796	12	776	12	572	8	412	5	331	4	147	2
Managed												
Security Services	4,290	63	4,492	70	6,536	89	6,910	92	7,064	89	5,482	89
Secured												
Enterprise Applications	-	-	-	-	-	-	-	-	305	4	109	2
Others	1,734	25	1,127	18	245	3	232	3	218	3	400	7
	<u>6,820</u>	<u>100</u>	<u>6,395</u>	<u>100</u>	<u>7,353</u>	<u>100</u>	<u>7,554</u>	<u>100</u>	<u>7,918</u>	<u>100</u>	<u>6,138</u>	<u>100</u>

Revenue represents income from sale of software and hardware for MSS and the provision of related services such as implementation, consultation, training and maintenance.

Revenue for the FYE2001 was lower by 6.23% compared with the FYE2000, mainly due to a reduction of 35.01% in the revenue segment of Extol Corporation classified as 'others'. Fewer contracts were awarded by a main customer in the port management industry who underwent a merger exercise.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.2 Summarised Income Statements of Extol Corporation (Continued)

Notes:-

(a) Revenue (Continued)

During the FYE2002, the revenue of Extol Corporation reversed its trend by recording a growth rate of 14.98% compared with the FYE2001. The increase in revenue was attributable to the substantial growth in the revenue from MSS of 45.50%, as Extol Corporation was able to secure major contracts from the existing and new clients especially in the financial services sector due to its established reputation in the market.

The FYE2003 and the FYE2004 exhibited escalating growth in revenue from the MSS segment at 5.72% and 2.23% respectively.

The annualised revenue for the FPE2005 as compared to the FYE2004 increased by 16.28% was contributed by the growth in revenue from MSS segment as Extol Corporation was able to secure more contracts from existing and new clients especially in the telecommunication and financial services sector.

(b) Extraordinary and Exceptional items

There were no extraordinary and exceptional items during the financial years/period under review.

(c) Taxation

Effective tax rate for the FYE2000 was slightly lower than the statutory tax rate. This was mainly due to the gain on disposal of non-qualifying portion of a motor vehicle which was not taxable.

Effective tax rate for the FYE2001 was higher than the statutory tax rate mainly due to interest restriction on borrowing costs which was not deductible for tax reporting purposes.

Effective tax rates for the FYE2002 to the FYE2003 and the FPE2005 were higher than the statutory tax rate due principally to certain expenses being disallowed for tax reporting purposes.

Effective tax rate for the FYE2004 was lower than the statutory tax rate. This was due to the utilisation of unabsorbed capital allowances brought forward.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.2 Summarised Income Statements of Extol Corporation (Continued)

Notes:-

(d) Earnings per Ordinary Share ("EPS")

Gross EPS is calculated based on the profit before taxation on the number of shares in issue during each of the respective financial years/period under review.

Net EPS is calculated based on the profit after taxation on the number of shares in issue during each of the respective financial years/period under review.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.3 Summarised Income Statements of Extol Marketing

6.3.3.1 The income statements of Extol Marketing based on the audited financial statements for the financial period from the date of incorporation on 31 March 2004 to 31 December 2004 and the eight (8) months financial period ended 31 August 2005 are set out below:-

	← Periods ended →	
	31 December 2004 RM'000	31 August 2005 RM'000
Revenue	434	-
Cost of Sales	(303)	-
Gross Profit	<u>131</u>	<u>-</u>
Profit before interest, depreciaiton and taxation	121	(2)
Interest expense	-	-
Depreciation	-	-
Profit before exceptional items	<u>121</u>	<u>(2)</u>
Exceptional items	-	-
Profit before taxation	<u>121</u>	<u>(2)</u>
Taxation	(26)	-
Net profit for the period	<u>95</u>	<u>(2)</u>
Weighted average number of ordinary shares of RM1.00 each	<u>1</u>	<u>2</u>
Gross EPS/(LPS) (RM)	*160,196.61	***(1,715.35)
Net EPS/(LPS) (RM)	**127,626.59	***(1,715.35)
Gross dividend rate (%)	-	-

* Based on annualised profit before taxation of approximately RM160,197.

** Based on annualised profit after taxation of approximately RM127,627.

*** Based on annualised loss before taxation and annualised loss after taxation of approximately RM3,431.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

6. SUMMARISED INCOME STATEMENTS (Continued)

6.3.3 Summarised Income Statements of Extol Marketing (Continued)

Notes:-

(a) Revenue

Revenue represents income derived from providing MSS and the related services from a one off contract which was completed in the FYE2004.

(b) Extraordinary and Exceptional items

There were no extraordinary and exceptional items during the financial periods under review.

(c) Taxation

Effective tax rate for the FYE2004 was lower than the statutory tax rate mainly attributed to the tax saving granted to small and medium scale companies which are incorporated in Malaysia with paid-up share capital of RM2.5 million and below, in which the statutory tax rate on chargeable income up to RM500,000 is levied at 20% and the balance at 28% for all chargeable income in excess of RM500,000.

(d) Earnings/(loss) per Ordinary Share ("EPS")

Gross EPS/(LPS) is calculated based on the annualised profit/(loss) before taxation and on the weighted average number of shares in issue during the financial periods under review.

Net EPS/(LPS) is calculated based on the annualised profit/(loss) after taxation and on the weighted average number of shares in issue during the financial periods under review.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

7. SUMMARISED BALANCE SHEETS

7.1 Summarised Balance Sheets

The summarised balance sheets of each of the companies within the Extol Group based on the audited financial statements for the past years/periods under review are as follows:-

7.1.1 Summarised Balance Sheets summarised of Extol MSC

7.1.1.1 The summarised balance sheets of Extol MSC based on the audited financial statements of Extol MSC as at 31 December 2004 and 31 August 2005 are set out below:-

	← As At →	
	31 December 2004 RM'000	31 August 2005 RM'000
PROPERTY, PLANT AND EQUIPMENT	11	28
DEVELOPMENT EXPENDITURE	450	1,158
Current Assets		
Trade receivables	2,219	3,005
Cash and bank balances	3	15
	2,222	3,020
Current Liabilities		
Trade and other payables	533	538
Amount owing to directors	3	3
	536	541
Net current assets	1,686	2,479
	2,147	3,665
Financed by:		
Share capital	1,260	1,260
Accumulated profit	887	2,405
Shareholder's funds	2,147	3,665



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

7. SUMMARISED BALANCE SHEETS (Continued)

7.1.2 Summarised Balance Sheets of Extol Corporation

7.1.2.1 The summarised balance sheets of Extol Corporation based on the audited financial statements of Extol Corporation as at 31 December 2000 to 2004 and 31 August 2005 are set out below:-

	As at					
	← As at 31 December →					31 August
	2000	2001	2002	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	2,177	2,018	1,906	4,702	4,479	4,224
INVESTMENT IN SUBSIDIARIES	1,369	1,369	1,317	-	-	-
RESEARCH AND DEVELOPMENT EXPENDITURE	-	-	-	1,422	2,085	1,937
Current Assets						
Inventories	3	9	108	77	95	89
Trade and other receivables	3,801	3,076	3,337	1,077	2,589	3,659
Amount owing by subsidiaries	1,121	1,568	1,599	-	-	-
Amount owing by a director	*	-	-	-	-	-
Tax recoverable	-	-	-	87	167	89
Cash and bank balances	39	3	32	2	117	237
	4,964	4,656	5,076	1,243	2,968	4,074
Current Liabilities						
Trade and other payables	773	503	1,114	969	3,328	3,107
Amount owing to a subsidiary	139	69	55	-	-	-
Amount owing to directors	583	535	102	-	-	-
Short term borrowings	1,193	1,136	1,213	1,440	550	963
Bank overdraft	320	407	13	406	283	51
Provision for taxation	56	44	86	-	-	-
	3,064	2,694	2,583	2,815	4,161	4,121
Net current assets/(liabilities)	1,900	1,962	2,493	(1,572)	(1,193)	(47)
	5,446	5,349	5,716	4,552	5,371	6,114

* RM60



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

7. SUMMARISED BALANCE SHEETS (Continued)

7.1.2 Summarised Balance Sheets of Extol Corporation (Continued)

	← As at 31 December →					As at
	2000	2001	2002	2003	2004	31 August
	RM'000	RM'000	RM'000	RM'000	RM'000	2005
						RM'000
Financed by:						
Share capital	2,500	2,500	2,500	2,500	2,500	2,500
Retained profit	2,356	2,381	2,490	1,124	1,802	2,390
Shareholders' funds	4,856	4,881	4,990	3,624	4,302	4,890
Long term borrowings	590	468	726	617	523	425
Deferred taxation	-	-	-	311	546	799
	5,446	5,349	5,716	4,552	5,371	6,114



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

7. SUMMARISED BALANCE SHEETS

7.1.3 Summarised Balance Sheets summarised of Extol Marketing

7.1.3.1 The summarised balance sheets of Extol Marketing based on the audited financial statements of Extol Marketing as at 31 December 2004 and 31 August 2005 are set out below:-

	← As At →	
	31 December 2004 RM'000	31 August 2005 RM'000
Current Assets		
Trade and other receivables	259	95
Cash in hand	1	1
	260	96
Current Liabilities		
Trade and other payables	139	2
Provision for taxation	25	-
	164	2
Net current assets	96	94
	96	94
Financed by:		
Share capital	*	*
Retained profit	96	94
Shareholders' funds	96	94

* RM2.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

8. STATEMENT OF ASSETS AND LIABILITIES

8.1 The proforma statement of assets and liabilities of Extol MSC as at 31 August 2005 which has been presented for illustrative purposes only on the assumption that the Acquisitions of Extol Corporation and Extol Marketing and the Subdivision of Shares had been effected on 31 August 2005. The proforma statement of assets and liabilities has been prepared from the audited financial statements of Extol MSC, Extol Corporation and Extol Marketing, on the assumption that the Subdivision of Shares, the public issue and utilisation of funds had been completed on that date and it should be read in conjunction with the notes thereon.

	Note	Audited Extol MSC RM'000	Proforma Extol Group RM'000
PROPERTY, PLANT AND EQUIPMENT	10.3	28	6,169
DEVELOPMENT EXPENDITURE	10.4	1,158	6,160
GOODWILL ON CONSOLIDATION		-	1,586
CURRENT ASSETS			
Inventories	10.5	-	89
Trade and other receivables	10.6	3,005	6,759
Tax recoverable		-	90
Cash and bank balances		15	1,500
		<u>3,020</u>	<u>8,438</u>
CURRENT LIABILITIES			
Trade and other payables	10.7	538	3,647
Amount owing to a director	10.8	3	3
Bank overdraft	10.9	-	51
Short term borrowings	10.10	-	963
		<u>541</u>	<u>4,664</u>
NET CURRENT ASSETS		2,479	3,774
LONG TERM LIABILITIES			
Long term borrowings	10.12	-	(425)
Deferred taxation	10.13	-	(799)
		<u>3,665</u>	<u>16,465</u>
Financed by:			
SHARE CAPITAL	10.14	1,260	10,440
NON-DISTRIBUTABLE RESERVES			
Share premium		-	3,620
DISTRIBUTABLE RESERVES			
Accumulated profit	10.15	2,405	2,405
TOTAL SHAREHOLDERS' EQUITY		<u>3,665</u>	<u>16,465</u>



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of Extol Group has been prepared based on the audited financial statements of Extol MSC, Extol Corporation and Extol Marketing as at 31 August 2005. The Proforma Extol Group consolidated cash flow statement has been prepared for illustrative purposes only on the assumption that the Acquisitions of Extol Corporation and Extol Marketing, the Subdivision of Shares, the public issue and utilisation of funds has been effected on 31 August 2005.

	Proforma Extol Group 31 August 2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES:	
Profit before taxation	2,357
Adjustments for:	
Amortisation of development expenditure	178
Depreciation	263
Interest expenses	66
Operating Profit Before Working Capital Changes	<u>2,864</u>
Decrease in inventories	7
Increase in receivables	(1,693)
Decrease in payables	(354)
Cash Generated From Operations	<u>824</u>
Interest paid	(37)
Tax refunded	53
Net Cash From Operating Activities	<u>840</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Research and development expenditure	(3,803)
Purchase of property, plant and equipment	(1,942)
Net Cash Used In Investing Activities	(5,745)



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (Continued)

	Proforma Extol Group 31 August 2005 RM'000
CASH FLOW FROM FINANCING ACTIVITIES:	
Interest paid	(29)
Proceeds from Public Issue	7,830
Net change in short term borrowings	404
Payments to hire purchase payable	(10)
Listing expenses paid	(1,600)
Repayment of term loans	(78)
Net Cash From Financing Activities	<u>6,517</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,612
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	(163)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>1,449</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS:	
Cash and bank balances	1,500
Bank overdrafts	(51)
	<u>1,449</u>



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO STATEMENT OF ASSETS AND LIABILITIES

10.1 Basis of Accounting

The proforma statement of assets and liabilities of Extol Group have been prepared on bases and accounting principles consistent with those adopted in the preparation of audited financial statements of Extol MSC, Extol Corporation and Extol Marketing ("Extol Group") for the eight (8) months financial period ended 31 August 2005, which have been adopted by Extol MSC as the group accounting policies.

The proforma statement of assets and liabilities of Extol Group are prepared for illustrative purposes only and are based on the combined audited balance sheets of Extol MSC, Extol Corporation and Extol Marketing as at 31 August 2005 after making the necessary adjustments and on the assumption that the Acquisitions of Extol Corporation and Extol Marketing, Subdivision of Shares, public issue and utilisation of funds had been effected on 31 August 2005.

The consolidated proforma statement of assets and liabilities of the Extol Group have been prepared under the historical cost convention, unless otherwise stated in the accounting policies set out below, and comply with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

10.2 Significant Accounting Policies

(a) Basis of Consolidation

The consolidated proforma statement of assets and liabilities include the audited financial statements of Extol MSC, Extol Corporation and Extol Marketing made up to 31 August 2005.

Subsidiaries are those enterprises controlled by Extol MSC. Control exists when Extol MSC has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed during the period are included in Extol Group statement of assets and liabilities from their respective effective dates of acquisitions.

The financial statements of the parent and its subsidiaries are all drawn up to the same reporting date.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.2 Significant Accounting Policies (Continued)

(b) Goodwill on Consolidation

Goodwill is stated at cost less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(g). Goodwill arising on consolidation represents the excess of the purchase price over the fair values of the net assets of the subsidiaries at the date of acquisition.

(c) Subsidiaries

Investments in subsidiaries are stated at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(g).

(d) Property, Plant and Equipment And Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(g). 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 for this purpose are as follows:

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

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

Fully depreciated assets are retained in the books at a nominal value.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.2 Significant Accounting Policies (Continued)

(e) Research and Development Expenditure

Research and development expenditure are written off to the income statement as and when incurred except for expenditure incurred on specific development projects are recognised as development assets to the extent that such expenditure is expected to generate future economic benefits.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(g). Development expenditure will be amortised over their expected useful lives of ten (10) years upon generation of income.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which is determined on the weighted average basis comprises all expenditure incurred in bringing the stock to their present location and condition. In arriving at the net realisable value, due allowance is made for all damaged, obsolete and slow moving items.

(g) Impairment of Assets

As at each balance sheet date, assets, other than inventories, 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 recognised 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 realisable 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 recognised is recorded to the extent the impairment loss had previously been recognised. 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 recognised as income.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.2 Significant Accounting Policies (Continued)

(h) Long Term Liabilities

Long term liabilities represent liabilities not due for repayment within a period of twelve months after the balance sheet date.

(i) Receivables

Receivables are carried at anticipated realisable value. Known bad debts are written off and specific allowance is made against the statement of assets and liabilities for debts which are doubtful of recovery.

(j) Payables

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 Extol Group.

(k) 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised. Deferred tax is not recognised 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.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.2 Significant Accounting Policies (Continued)

(l) Equity Instrument

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

(m) Employees' Benefits

i) Short term benefits

Wages, salaries, bonuses and social contributions are recognised as expenses in the year in which the associated services are rendered by employees of Extol Group. Short term accumulating compensated absences such as paid annual leave are recognised 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 recognised 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 recognised as an expense in the income statement when incurred.

iii) Equity compensation benefits

Extol MSC's ESOS allows the Extol Group's employees to acquire shares of Extol MSC. No compensation cost of obligation is recognised when the options are exercised, equity is increased by the amount of the proceeds received.

(n) 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.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.2 Significant Accounting Policies (Continued)

(o) Borrowings

Interest-bearing borrowings are recognised based on the proceeds received, net of transactions costs incurred. Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised 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.

(p) 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:

	31 August 2005
	RM
1 EURO	4.603
1 US Dollar	3.800

(q) Financial Instruments

Financial instruments carried on the statement of assets and liabilities 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 recognised amounts and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.3 Property, Plant and Equipment

Audited	Cost	Accumulated Depreciation	Net Book Value
Extol MSC	RM'000	RM'000	RM'000
As at 31 August 2005			
Furniture and fittings	2	(1)	1
Office equipment	3	(1)	2
Computers	35	(10)	25
	<u>40</u>	<u>(12)</u>	<u>28</u>

Proforma Extol Group	Cost	Accumulated Depreciation	Net Book Value
As at 31 August 2005	RM'000	RM'000	RM'000
Freehold office buildings	2,032	(325)	1,707
Furniture and fittings	107	(70)	37
Office equipment	104	(95)	9
Computers	249	(189)	60
Motor vehicles	70	(23)	47
Business expansion	1,917	-	1,917
Hardware appliances	2,870	(478)	2,392
	<u>7,349</u>	<u>(1,180)</u>	<u>6,169</u>

Extol Corporation's freehold office buildings with total net book values of RM1,707,387 are pledged to the licensed banks to secure banking facilities granted to Extol Corporation.

10.4 Development Expenditure

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005		
At cost	1,188	6,481
Less : Amortisation of development expenditure	(30)	(321)
	<u>1,158</u>	<u>6,160</u>



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.5 Inventories

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005		
Trading goods	-	89

10.6 Trade and Other Receivables

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005		
Trade receivables	2,527	6,059
Other receivables	6	119
Deposits	2	111
Prepayments	470	470
	<u>3,005</u>	<u>6,759</u>

The currency exposure profile of trade receivables is as follows:-

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
Ringgit Malaysia	1,508	5,035
US Dollar	1,019	1,024
	<u>2,527</u>	<u>6,059</u>

The normal trade credit terms given by Extol Group ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-to-case basis.

Included in prepayments are amounts totalling RM445,961 representing professional fees incurred in connection with the listing and flotation of Extol MSC on the MESDAQ Market of Bursa Securities.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.7 Trade and Other Payables

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005		
Trade payables	222	3,080
Other payables	60	117
Deposits	-	22
Accruals	256	428
	538	3,647

The currency exposure profile of trade payables is as follows:-

	Audited Extol MSC RM'000	Proforma Extol Group RM'000
Ringgit Malaysia	222	2,971
EURO		82
US Dollar	-	27
	222	3,080

The normal trade credit terms received by Extol Group ranges from 30 days to 60 days.

10.8 Amount Owing To A Director

The amount owing to a director represents unsecured advances from a director which is unsecured, interest free and has no fixed term of repayment.

10.9 Bank Overdraft

Proforma Extol Group

Bank overdraft of Extol Group bear interest at the rate of 2% per annum above the banks' based lending rates and are secured by way of:-

- (a) a charge on Extol Corporation's freehold office buildings; and
- (b) jointly and severally guarantees of the directors of a subsidiary company, Extol Corporation and a third party.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.10 Short Term Borrowings

		Audited	Proforma
		Extol	Extol
		MSC	Group
	Note	RM'000	RM'000
As at 31 August 2005			
Bills payable		-	824
Hire purchase payable	10.11	-	15
Term loans due within the next twelve months	10.12	-	124
		<u>-</u>	<u>963</u>

Bills payable of Extol Group bear interest at a rate quoted by the licensed bank for the respective tenor at the time of discounting and are secured by way of:-

- (a) a charge on Extol Corporation's freehold office buildings; and
- (b) jointly and severally guarantees of the directors of a subsidiary company, Extol Corporation, and a third party.

10.11 Hire Purchase Payable

		Audited	Proforma
		Extol	Extol
		MSC	Group
	Note	RM'000	RM'000
As at 31 August 2005			
Minimum hire purchase payments:-			
- not later than one year		-	17
- later than one year and not later than five years		-	16
		<u>-</u>	<u>33</u>
Less: Future interest charges		-	(4)
Present value of hire-purchase liability		<u>-</u>	<u>29</u>
Current			
- not later than one year	10.10	-	15
Non-current			
- later than one year and not later than five years	10.12	-	14
		<u>-</u>	<u>29</u>

The hire purchase liability bore interest at the balance sheet date at the rate of 4.4% per annum.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.12 Long Term Borrowings

	Note	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005			
Term loans		-	535
Less: Portion due within twelve months	10.10	-	(124)
Portion due after twelve months		-	411
Hire purchase payable	10.11	-	14
		-	425

The term loans are repayable as follows:-

	Note	Audited Extol MSC RM'000	Proforma Extol Group RM'000
As at 31 August 2005			
Within the next twelve months (included under current liabilities)	10.10	-	124
After the next twelve months (included under long term liabilities)			
- payable after one year but before five years		-	258
- after five years		-	153
		-	411
		-	535

Term loans of Extol Group bear interests as follows:-

- at 4.5% per annum fixed for the first year, base lending rate for the second year and 1% per annum above the banks' based lending rate thereafter; and
- at 1.75% per annum above the banks' based lending rate.

Term loans of Extol Group are secured by way of:-

- a charge on Extol Corporation's freehold office buildings; and
- jointly and severally guarantees of the directors of a subsidiary company, Extol Corporation, and a third party.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.13 Deferred Taxation

	Audited	Proforma
	Extol	Extol
	MSC	Group
	RM'000	RM'000
As at 31 August 2005		
At beginning of the financial period	-	546
Transfer from income statement	-	253
At end of the financial period	-	799

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:-

	Audited	Proforma
	Extol	Extol
	MSC	Group
	RM'000	RM'000
As at 31 August 2005		
Deferred tax liabilities		
- property, plant and equipment	-	347
- research and development expenditure	-	502
Deferred tax assets		
- unabsorbed business losses	-	(46)
- unabsorbed capital allowances	-	(4)
	-	799



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.14 Share Capital

	Number of ordinary shares '000	Proforma Extol Group RM'000
As at 31 August 2005		
Authorised [^]	250,000	25,000
Issued and fully paid:		
At 31 August 2005 *	1,260	1,260
Pursuant to the Acquisitions of Extol Corporation and Extol Marketing *	6,570	6,570
After the Acquisitions of Extol Corporation and Extol Marketing *	7,830	7,830
Pursuant to the Subdivision of Shares **	70,470	-
After the Subdivision of Shares**	78,300	7,830
Pursuant to the Public Issue and Utilisation of Funds **	26,100	2,610
After the Public Issue and Utilisation of Funds **	104,400	10,440

[^] The authorised share capital of Extol MSC was stated after the Subdivision of Shares was completed on 3 January 2006 and the increase in the authorised share capital to RM25,000,000 on 25 November 2005.

* Ordinary shares of RM1.00 each.

** Ordinary shares of RM0.10 each.

10.15 ACCUMULATED PROFIT

Subject to agreement with the Inland Revenue Board and the granting of the Pioneer Status by the relevant authority, Extol MSC has tax exempt income of approximately RM790,000 which can be used to pay tax exempt dividends as at 31 August 2005.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.16 Contingent Liability

As at 31 August 2005, there was an outstanding contingent liability in respect of a corporate guarantee given by a subsidiary company, Extol Corporation, to secure banking facility granted by a bank to a third party amounting to RM89,985. The directors do not anticipate any loss arising from this contingency.

10.17 Capital Commitment

As at 31 August 2005, a subsidiary company, Extol Corporation, has an outstanding capital commitment for the purchase of property, plant and equipment amounting to RM301,500 which has been authorised and contracted for but not accounted for in the statement of assets and liabilities. An amount of RM28,500 has been reflected as deposit in the statement of assets and liabilities.

10.18 Financial Instruments

(a) Financial risk management objective and policies

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

(b) Credit risk

Extol Group 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 the end of the financial year in relation to trade receivable is the carrying amount of trade receivables as stated in the statement of assets and liabilities as at the end of the financial period.

(c) Foreign currency exchange risk

The Proforma Extol Group 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 currencies are kept to an acceptable level. The Extol Group has not entered into any derivative financial instruments such as forward foreign exchange contracts.

13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.18 Financial Instruments (Continued)

(d) Liquidity risk

In the management of liquidity risk, the Extol Group 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.

(e) Interest rate risk

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

(f) Fair value of financial assets and financial liabilities

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

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

10.19 Significant Post Balance Sheet Events

There were no significant events subsequent to 31 August 2005 for Extol Group except for the following:-

a) **Increase in Authorised Share Capital**

On 25 November 2005, Extol MSC increased its authorised share capital from RM5,000,000 to RM25,000,000, comprising 5,000,000 ordinary shares of RM1.00 each to 25,000,000 ordinary shares of RM1.00 each.

b) **Acquisition of Extol Corporation**

Extol MSC had on 17 September 2004 entered into a conditional SSA with Extol Corporation Vendors for the acquisition of the entire issued and paid-up share capital of Extol Corporation comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM6,470,000 to be satisfied entirely by the issuance of 6,470,000 new ordinary shares of RM1.00 each in Extol MSC at par. The SSA was subsequently supplemented by a supplemental agreement entered with the same parties on 18 October 2005. The acquisition was completed on 19 December 2005.



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.19 Significant Post Balance Sheet Events (Continued)

c) Acquisition of Extol Marketing

Extol MSC had on 17 September 2004 entered into a conditional SSA with Extol Marketing Vendors for the acquisition of the entire issued and paid-up share capital of Extol Marketing comprising 2 ordinary shares of RM1.00 each for a purchase consideration of RM100,000 to be satisfied entirely by the issuance of 100,000 new ordinary shares of RM1.00 each in Extol MSC at par. The SSA was subsequently supplemented by a supplemental agreement entered with the same parties on 18 October 2005. The acquisition was completed on 19 December 2005.

d) Subdivision of Shares

Upon the completion of the Acquisition of Extol Corporation and Acquisition of Extol Marketing, Extol MSC has undertaken a Subdivision of Shares whereby every existing one (1) ordinary share of RM1.00 each in Extol MSC was sub-divided into ten (10) new ordinary shares of RM0.10 each. The Subdivision of Shares was completed on 3 January 2006.

e) Transfer of Shares To Employees

Justin Tan Seng Kooi offered to transfer 2,320,000 ordinary shares of RM0.10 each of his shares in Extol MSC to selected employees within Extol Group. The transfer was completed on 20 January 2006.

10.20 Proforma Net Tangible Assets Cover

Based on the proforma statement of assets and liabilities of the Proforma Extol Group as at 31 August 2005, the net tangible assets cover per share is calculated as follows:-

	Audited	Proforma
	Extol	Extol
As at 31 August 2005	MSC	Group
	RM'000	RM'000
Net tangible assets per the Proforma Extol Group's statement of assets and liabilities (RM'000)	2,507	8,719
Number of ordinary shares in issue ('000)	1,260	104,400
Net tangible assets cover per ordinary share (sen)	198.97	8.35



13 ACCOUNTANTS' REPORT (Cont'd)
(Prepared for the inclusion in this Prospectus)

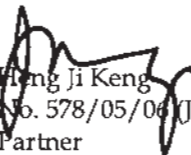
10. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (Continued)

10.21 Audited Financial Statements

No audited financial statements have been made up in respect of any period subsequent to 31 August 2005.

Yours faithfully,


Monteiro & Heng
No. AF 0117
Chartered Accountants


Hong Ji Keng
No. 578/05/06 (I/PH)
Partner



14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON
(Prepared for the inclusion in this Prospectus)

MONTEIRO & HENG

(Firm No. M0117)

Chartered Accountants



20 February 2006

The Board of Directors
Extol MSC Berhad
Level 14, Uptown 1
No.1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 AUGUST 2005

We have reviewed the Proforma Consolidated Balance Sheets of Extol MSC Berhad ("Extol MSC") and its subsidiaries ("Extol Group") at 31 August 2005 together with the notes and assumptions thereon, for which the Directors of Extol MSC are solely responsible, as set out in the accompanying statement, which we have stamped for the purpose of identification. The Proforma Consolidated Balance Sheets have been prepared solely for the inclusion in the Prospectus to be dated 27 February 2006 in connection with the following and should not be relied on for any other purposes.

- (i) the public issue of 26,100,000 new ordinary shares of RM0.10 each in Extol MSC at an issue price of RM0.30 each pursuant to the listing and quotation for the entire enlarged issued and fully paid-up share capital of Extol MSC comprising 104,400,000 ordinary shares of RM0.10 each, and
- (ii) for the new Extol MSC shares that may be issued upon the exercise of the options to be granted pursuant to its Employees' Share Option Scheme ("ESOS") on the MESDAQ Market of Bursa Malaysia Securities Berhad.

22-1, Monteiro & Heng Chambers, Jalan Tun Sambanthan 3, 50470 Kuala Lumpur, Malaysia
Tel : 03 2274 8988 - Fax : 03 2272 1864 / 2260 1708 - E-Mail : mhaudit@streamyx.com

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14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Balance Sheets As At 31 August 2005

In our opinion, the Proforma Consolidated Balance Sheets of Extol Group as at 31 August 2005, which are provided for illustrative purposes only, have been properly compiled on the bases set out in the accompanying notes to the Proforma Consolidated Balance Sheets and are presented on a basis consistent with the accounting policies normally adopted by Extol Group. The adjustments in the accompanying notes are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully,


Monteiro & Heng
No. AF 0117
Chartered Accountants


Heng Ji Keng
No. 578/05/06 (J/PH)
Partner

14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Balance Sheets As At 31 August 2005

The Proforma Consolidated Balance Sheets of Extol MSC as at 31 August 2005 which has been presented for illustrative purposes only on the assumption that the acquisitions of Extol Corporation Sdn. Bhd. ("Extol Corporation") and Extol Marketing Sdn. Bhd. ("Extol Marketing"), the subdivision of shares, the public issue and disbursement of listing expenses and utilisation of funds and the full exercise and conversion of employees' share options scheme ("ESOS") had been effected on 31 August 2005. The Proforma Consolidated Balance Sheets has been prepared based on the audited financial statements of Extol MSC, Extol Corporation and Extol Marketing and should be read in conjunction with the notes thereon.

	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V
	After	After	After	After	After
	Acquisitions of	Proforma I	Proforma II and	Proforma III	Proforma IV
	Subsidiaries	and	Public Issue and	and Utilisation	Subscription
	of	Subdivision	disbursement of	of Funds	and Conversion
	Subsidiaries	of Shares	listing expenses	and Utilisation	of ESOS
	RM'000	RM'000	RM'000	of Funds	of ESOS
	RM'000	RM'000	RM'000	RM'000	RM'000
Audited As At 31.8.2005					
PROPERTY, PLANT AND EQUIPMENT	28	4,252	4,252	6,169	6,169
DEVELOPMENT EXPENDITURE	1,158	3,094	3,094	6,160	6,160
GOODWILL ON CONSOLIDATION	-	1,586	1,586	1,586	1,586
CURRENT ASSETS					
Inventories	-	89	89	89	89
Trade and other receivables	3,005	6,759	6,759	6,759	6,759
Tax recoverable	-	90	90	90	90
Cash and bank balances	15	253	6,483	1,500	4,632
	3,020	7,191	13,421	8,438	11,570
CURRENT LIABILITIES					
Trade and other payables	538	3,647	3,647	3,647	3,647
Amount owing to a director	3	3	3	3	3
Bank overdrafts	-	51	51	51	51
Short term borrowings	-	963	963	963	963
	541	4,664	4,664	4,664	4,664
NET CURRENT ASSETS	2,479	2,527	8,757	3,774	6,906



14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Consolidated Balance Sheets As At 31 August 2005

	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V
	After	After	After	After	After
	Acquisitions of	Proforma I	Proforma II and	Proforma III	Proforma IV
	Subsidiaries	and	Public Issue and	After	After
	RM'000	Subdivision	disbursement of	Proforma III	Proforma IV
		of Shares	listing expenses	of Funds	and Full
		RM'000	RM'000	RM'000	Subscription
					and Conversion
					of ESOS
					RM'000
LONG TERM LIABILITIES					
Long term borrowings	-	(425)	(425)	(425)	(425)
Deferred taxation	-	(799)	(799)	(799)	(799)
	3,665	10,235	16,465	16,465	19,597
Financed by:					
SHARE CAPITAL	1,260	7,830	10,440	10,440	11,484
NON-DISTRIBUTABLE RESERVES					
Share premium	-	-	3,620	3,620	5,708
DISTRIBUTABLE RESERVES					
Accumulated profit	2,405	2,405	2,405	2,405	2,405
TOTAL SHAREHOLDERS' EQUITY	3,665	10,235	16,465	16,465	19,597
NET TANGIBLE ASSETS ("NTA")	2,507	5,555	11,785	8,719	11,851
NUMBER OF SHARES IN ISSUE ('000)	1,260	78,300	104,400	104,400	114,840
NTA PER SHARE (SEN)	198.97	70.94	11.29	8.35	10.32



14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Consolidated Balance Sheets As At 31 August 2005

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF EXTOL MSC BERHAD

1. Basis of Preparation and Consolidation

- (i) The Proforma Consolidated Balance Sheets have been prepared using the acquisition method of accounting.
- (ii) The Proforma Consolidated Balance Sheets have been prepared on bases and accounting principles consistent with those adopted in the preparation of audited financial statements of Extol MSC, Extol Corporation and Extol Marketing.
- (iii) The Proforma Consolidated Balance Sheets are prepared for illustrative purposes only to show the effects on the audited balance sheets of Extol MSC as at 31 August 2005 on the assumption that the transactions as described in Notes 1.1, 1.2, 1.3 and 1.4 had been completed on 31 August 2005 and the options under the ESOS as stated in Note 1.5 had been fully exercised on that date.

1.1 Proforma I

Proforma I incorporates the effects of the Acquisition of Extol Corporation and Extol Marketing ("Acquisitions of Subsidiaries") as follows:-

- a) acquisition of the entire issued and paid up share capital of Extol Corporation comprising 2,500,000 ordinary shares of RM1.00 each for a purchase consideration of RM6,470,000 to be satisfied by way of the issuance of 6,470,000 new ordinary shares of RM1.00 each in Extol MSC at par. The acquisition was completed on 19 December 2005.
- b) acquisition of the entire issued and paid up share capital of Extol Marketing comprising two (2) ordinary shares of RM1.00 each for a purchase consideration of RM100,000 to be satisfied by way of the issuance of 100,000 new ordinary shares of RM1.00 each in Extol MSC at par. The acquisition was completed on 19 December 2005.

Goodwill arising therefrom is as follows:-

	Extol Corporation RM'000	Extol Marketing RM'000	Total RM'000
Purchase consideration	6,470	100	6,570
Share of net assets as at 31 August 2005	(4,890)	(94)	(4,984)
Goodwill on consolidation	1,580	6	1,586



14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Consolidated Balance Sheets As At 31 August 2005

NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF EXTOL MSC BERHAD (Continued)

1. Basis of Preparation and Consolidation (Continued)

1.2 Proforma II

Proforma II incorporates the effects of Proforma I and the subdivision of every existing one (1) ordinary share of RM1.00 each in Extol MSC into ten (10) ordinary shares of RM0.10 each. The subdivision of shares was completed on 3 January 2006.

1.3 Proforma III

Proforma III incorporates the effects of Proforma II and the public issue of new 26,100,000 ordinary shares of RM0.10 each at an offer price of RM0.30 per ordinary share amounting to RM7,830,000 and the disbursement of listing expenses of RM1,600,000. The estimated listing expenses will be set off against the Share Premium Account of RM5,220,000.

1.4 Proforma IV

Proforma IV incorporates the effects of Proforma III and the utilisation of funds (after disbursement of listing expenses) arising from the public issue as follows:-

	RM'000
Research and development expenditure (included in development expenditure)	3,066
Business expansion (included in property, plant and equipment)	1,917
Working capital (included in cash and bank balances)	1,247
	6,230

1.5 Proforma V

Proforma V is provided for illustrative purposes only to show the effects on Extol Group's Proforma Balance Sheets as at 31 August 2005 on the assumption that options granted under the proposed ESOS had been fully exercised after the completion of Proforma IV.

The said options are assumed to be fully exercised into 10,440,000 new ordinary shares of RM0.10 each at an indicative exercise price of RM0.30 per ordinary shares upon the completion of the transactions described under Notes 1.1, 1.2, 1.3, and 1.4 and the proposed listing of Extol MSC on the MESDAQ market of the Bursa Malaysia Securities Berhad. The gross proceeds from the assumed full exercise of ESOS options of RM3,132,000 are expected to be utilised for working capital purposes.



14 PROFORMA CONSOLIDATED BALANCE SHEETS AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)
(Prepared for the inclusion in this Prospectus)

EXTOL MSC BERHAD AND ITS SUBSIDIARIES
Proforma Consolidated Balance Sheets As At 31 August 2005

NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF EXTOL MSC BERHAD (Continued)

2. The movements in the issued and paid-up share capital, share premium and reserve of Extol MSC after taking into account the above transactions are as follows:

	Share Capital RM'000	Share Premium RM'000	Accumulated Profit RM'000
Audited balance as at 31 August 2005	1,260	-	2,405
Arising from the Acquisitions of Subsidiaries	6,570	-	-
As per Proforma I and II	7,830	-	2,405
Arising from the Public Issue and the disbursement of listing expenses	2,610	3,620	-
As per Proforma III and IV	10,440	3,620	2,405
Arising from the full exercise and conversion of ESOS	1,044	2,088	-
As per Proforma V	11,484	5,708	2,405

3. The movements in the cash and bank balances as a result of the above transactions are as follows:-

	RM'000
Audited balance as at 31 August 2005	15
Arising from the Acquisition of Subsidiaries	238
As per Proforma I and II	253
Arising from the Public Issue	7,830
Less : Disbursement of listing expenses	(1,600)
As per Proforma III	6,483
Less : Amounts earmarked for expenditure	
- research and development expenditure	3,066
- business expansion	1,917
	4,983
As per Proforma IV (Note)	1,500
Arising from the full exercise and conversion of ESOS	3,132
As per Proforma V (Note)	4,632

Note:-

Included in the cash and bank balances as per Proforma IV and Proforma V is an amount of RM1,247,000 from the public issue earmarked for working capital.

