



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

QUARTERLY REPORT
Notes to the Quarterly Report
for The Fourth Quarter Ended 31 December 2006
(The figures have not been audited)



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A. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD (“FRS”) 134 INTERIM FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The interim report of Extol MSC Berhad (“**Extol MSC**” or “**Company**”) and its subsidiaries (“**Extol MSC Group**” or “**Group**”) is unaudited and is prepared in accordance with requirements of the Financial Reporting Standard (FRS)134 : “Interim Financial Reporting” (previously known as MASB 26) issued by the Malaysian Accounting Standards Board (“**MASB**”), Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the MESDAQ Market. There is no preceding year corresponding quarter comparative for the consolidated income statement, as Extol MSC Group was formed on 19 December 2005.

The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2005. These explanatory notes attached to the interim financial statements 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 since the financial year ended 31 December 2005.

A2. AUDIT REPORT OF THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report on the financial statements for the financial year ended 31 December 2005 was not subject to any qualification.

A3. SEASONALLY OR CYCLICAL FACTORS OF INTERIM OPERATIONS

The Group’s business operation results are not materially affected by any major seasonal or cyclical factors.

A4. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

During the current financial quarter under review and the current financial year to date, there are no significant items or events that arose, which affected the assets, liabilities, equity, net income or cash flows, that are unusual by reason of their nature, size or incidence.

A5. MATERIAL CHANGE IN ESTIMATES

There are no significant changes in estimates of amounts reported in prior financial years which may have material effect on the results for the current financial quarter under review and the current financial year to date.



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A6. ISSUANCES, CANCELLATIONS, REPURCHASE, RESALE AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

There are no issuance, cancellations, repurchases, resale and repayment of debt and equity security shares held as treasury shares or resale of treasury shares during the current financial quarter under review and the current financial year to date.

A7. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The valuations of property, plant and equipment have been brought forward without amendments from the financial statements for the financial year ended 31 December 2005. There were no revaluation of plant and equipment during the financial quarter ended 31 December 2006 and current financial year to date ended 31 December 2006. As at 31 December 2006, all plant and equipment were stated at cost less accumulated depreciation.

A8. DIVIDEND

No interim ordinary dividend has been declared for the financial quarter ended 31 December 2006. In the financial quarter ended 30 June 2006, the Company has declared an Interim Dividend of 8% amounting to RM835,200 in respect of the financial year ending 31 December 2006 out of the Income from Exempt Account under Section 12 of the Income Tax (Amendment) Act, 1999, on the amounts paid on the ordinary share capital of the Company to the shareholders, who were on the Company's Register of Members on 17 July 2006. The total dividend for the current financial year to date amounts to RM0.08 for every 10 ordinary shares held in the company.

A9. SEGMENTAL INFORMATION

Extol Group is a one-stop Information and Communications Technology (“**ICT**”) security solutions provider offering a comprehensive spectrum of ICT security products and services to counter ICT security threats.

The Group offers ICT security products and services such as hardware and software security solutions, consultancy, forensic research and education known as Managed Security Solutions (“**MSS**”).

The Group also offers security-enhanced enterprise applications solutions known as Secured Enterprise Applications (“**SEA**”).



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The segmental revenue and results of the Group are as follows :-

Current financial quarter ended 31 December 2006	Anti-Virus Software RM'000	MSS RM'000	SEA RM'000	Total RM'000
Revenue	39	4,829	54	4,922
Profit from operations	3	275	16	*294
<hr/>				
Year to date	Anti-Virus Software RM'000	MSS RM'000	SEA RM'000	Total RM'000
Revenue	182	15,264	184	15,630
Profit from operations	34	1,419	52	*1,505

Note:

**Does not include other income and interest income of the Group.*

No segmental reporting has been prepared for geographical segments as the Group's revenue is derived predominantly in Malaysia.

A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER

There are no material events subsequent to the end of the current financial quarter under review that has not been reflected in the financial statements.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There are no changes in the composition of the Group during the financial quarter under review and the current financial year to date.

A12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no changes in the contingent liabilities and contingent assets since the last annual balance sheet as at 31 December 2005.



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A13. CAPITAL COMMITMENTS

There are no capital commitments in the interim financial statements as at 31 December 2006.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 2006

The Group recorded a consolidated profit before taxation of RM1.571 million on the back of revenue of RM15.630 million for the current financial year ended (“FYE”) 31 December 2006, whilst during the corresponding period of the preceding year ended 31 December 2005, the Group achieved a consolidated revenue of RM5.479 million on the back of profit before taxation of RM2.826 million. Revenue for the current FYE 31 December 2006 increased by 185% when compared to the previous FYE 31 December 2005 whilst profit before taxation for the current FYE 31 December 2006 had decreased by 44.41% when compared to the previous FYE 31 December 2005.

Profit before tax (“PBT”) margin for current FYE 31 December 2006 was 10.05% as compared to PBT margin of 51.58% for the FYE 31 December 2005.

The main reasons for the fall in PBT margin are as follows:-

- (i) an increase in operating expenses by approximately 236% in the FYE 31 December 2006 as compared to the FYE 31 December 2005. The increase in operating expenses is mainly due to the Group’s initiatives in undertaking marketing efforts to increase the market exposure and profile of the Group as well as the recruitment of a few high level staff in the second half of the FYE 31 December 2006, which had contributed to a higher staff costs;
- (ii) the Group has increased its dealer network since the previous FYE 31 December 2005 to have a wider market reach. Dealers are able to negotiate a more competitive pricing from the Group as compared to end users, as they typically purchase in bulk and make repeat purchases. Hence, this has contributed to a decrease in the Group’s PBT margin as well as its gross profit margin. However, in the longer term, the increase in sales to dealers is expected to contribute positively to the revenue and business of Extol Group.



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B2. COMPARISON OF CURRENT FINANCIAL QUARTER RESULTS WITH THE PRECEDING QUARTER

For the financial quarter under review, the Group recorded revenue of RM4.922 million and profit before tax of RM0.292 million. This represents a decline of approximately 12.06% and 61.32% to the revenue and profit before tax of the previous financial quarter of RM5.597 million and RM0.755 million respectively.

The decline in revenue was mainly attributable to the increase in market competition and a higher percentage of the Group's sales were to dealers instead of end users. As mentioned in B1, dealers are able to negotiate a more competitive pricing from the Group as compared to end users, as they typically purchase in bulk and make repeat purchases. Despite the decline in revenue, most of the operational costs are fixed costs and as such, the PBT margin has eroded from 13.49% in the previous quarter to 5.93% in this quarter.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

With the implementation of the Ninth Malaysian Plan as well as the Malaysian Third Industrial Master Plan, the Board of Directors of Extol MSC are of the opinion that the outlook of the Information and Communication Technology industry is expected to be favourable and encouraging to Extol MSC Group's business.

Going forward, the Group will continue its efforts and focus on research and development to further develop and enhance its product offerings and to further enhance the reach of the Group's sales network.

Premised on the above and barring any unforeseen circumstances, the management expects the financial performance of the Group to be satisfactory for the financial year ending 31 December 2007.

B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE

Not applicable as no profit forecast or profit guarantee was published.



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B5. TAXATION

Income tax expense comprises the followings:

	Individual Financial quarter ended 31 December 2006 RM'000	Cumulative period ended 31 December 2006 RM'000
In respect of the current period		
Income tax	(16)	(21)
Deferred tax	(26)	(92)
	<u>(42)</u>	<u>(113)</u>

The Company was granted Pioneer Status in principle under the Promotion of Investments (Amendment) Act, 1986 by the Ministry of International Trade and Industry. The approved Pioneer status is granted for the period from 27 September 2004 to 26 September 2009 which entitles the Company to have tax incentives for five (5) years. The company was also granted the MSC status on 8 September 2004.

Income tax of RM20,525 for the cumulative period ended 31 December 2006 was provided on interest income generated from fixed deposit not allowed for tax exemption.

For the cumulative financial period ended 31 December 2006, there is a provision of RM92,483 for deferred tax liabilities provided on the temporary differences arising from the subsidiary company's property, plant and equipment and product development expenditure.

B6. PROFIT ON SALE OF UNQUOTED INVESTMENT AND/OR PROPERTIES

There is no disposal of unquoted investment or properties during the current financial quarter under review and current financial year-to-date.

B7. PURCHASE AND DISPOSAL OF QUOTED SECURITIES

There is no purchase or disposal of quoted securities during the current financial quarter under review and current financial year-to-date.

B8. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED

There are no corporate proposals announced but not completed as at the date of this report.



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B9. STATUS OF UTILISATION OF PROCEEDS

As at 31 December 2006, the Company has utilised approximately 60.93% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation *	Actual utilisation as at 31.12.2006	Amount Unutilised	Intended time frame for utilisation
	RM'000	RM '000	RM'000	
Research and Development Expenses	3,066	1,178	1,888	By 19 March 2009
Business Expansion	1,917	988	929	By 19 March 2009
Working Capital	1,247	1,005	242	By 19 March 2009
Listing Expenses	1,600	1,600	-	-
Total	7,830	4,771	3,059	

* Proposed utilisation as set out in Extol MSC's prospectus dated 27 February 2006.

B10. GROUP BORROWINGS AND DEBT SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at current financial year ended 31 December 2006 and previous financial year ended 31 December 2005 are as follows:

		As at 31 Dec 2006	As at 31 Dec 2005
		RM'000	RM'000
Short term borrowings			
Bank overdraft	- secured	571	419
Bills payable	- secured	1,385	1,028
Hire purchase creditor	- secured	49	15
Term loan	- secured	83	153
Long term borrowings			
Hire purchase	- secured	147	9
Term loan	- secured	541	551
Total Borrowings		<u>2,776</u>	<u>2,175</u>



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B11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

B12. MATERIAL LITIGATION

As at the date of this report, there is no material litigation, claim or arbitration against the Group.

There is no material litigation (including status of any pending material litigation) since the last annual balance sheet date up to the date of this report.

B13. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the current financial quarter and current financial quarter to date are computed as follows:

	Current financial quarter 31 December 2006	Year To-date 31 December 2006
Net profit for the period (RM'000)	250	1,458
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	98,751
Basic Earnings per Ordinary Shares (sen)	0.24	1.48

(b) Fully diluted earnings per share

Not applicable as the Company has not granted any employees' share options nor issued securities that have dilutive effects on the Company's existing shares in issue.

B14. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue on 23 February 2007 in accordance with resolution of the board of directors.