



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

**QUARTERLY REPORT**  
**Notes to the Quarterly Report**  
**for the First Quarter Ended 31 March 2007**  
**(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.

The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2006. 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 2006.

#### **A2. AUDIT REPORT OF THE PRECEDING ANNUAL FINANCIAL STATEMENTS**

The audit report on the financial statements for the financial year ended 31 December 2006 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 period 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 2006. There were no revaluation of plant and equipment during the financial quarter ended 31 March 2007. As at 31 March 2007, all plant and equipment were stated at cost less accumulated depreciation.

**A8. DIVIDEND**

No interim ordinary dividend has been declared or paid during the financial quarter ended 31 March 2007.

**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”).

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

<b>Current financial quarter ended 31 March 2007</b>	<b>Anti-Virus</b>			<b>Total</b>
	<b>Software</b>	<b>MSS</b>	<b>SEA</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	36	3,321	0	3,357
Profit from operations	4	344	0	*348
<b>Year to date</b>	<b>Anti-Virus</b>			<b>Total</b>
	<b>Software</b>	<b>MSS</b>	<b>SEA</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	36	3,321	0	3,357
Profit from operations	4	344	0	*348

Note:

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



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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**

Save as disclosed under Section B8, there are no other 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**

On 16 April 2007, Extol Marketing Sdn Bhd ("**Extol Marketing**") a wholly-owned subsidiary of the Company entered into a Sale of Shares Agreement ("**Agreement**") for the acquisition of 68% equity interest in Innodium Sdn Bhd, a MSC status company, for a purchase consideration of RM1,700,000 to be satisfied in cash.

Save for the proposed acquisition of Innodium Sdn Bhd, which upon completion will become a 68% subsidiary of the Group, there are no changes in the composition of the Group during the financial quarter under review and the current financial period 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 2006.

**A13. CAPITAL COMMITMENTS**

As at 31 March 2007, the Group has outstanding capital commitments for the proposed acquisition of the subsidiary amounting to RM1,190,000 which have been authorised and contracted but not accounted for in the financial statements. This amount represents the balance payment of the purchase consideration of the proposed acquisition of the subsidiary (70%).

Further details of the above stated proposed acquisition are set up in Section B8.



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### **B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES**

#### **B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2007**

The Group recorded a consolidated profit before taxation of RM0.407 million on the back of revenue of RM3.357 million for the current financial quarter ended 31 March 2007, whilst during the corresponding quarter of the preceding year, the Group achieved a consolidated profit before taxation of RM0.448 million on the back of revenue of RM3.009 million. Revenue for the current financial quarter under review increased by 11.57% whilst profit before taxation for the current financial quarter under review decreased by 9.15% when compared to the preceding year's corresponding quarter.

The increase in revenue was mainly due to higher contributions from a few major customers. The decrease in profit before tax was mainly due to the increase in operating expenses by approximately 81.6% such as staff cost, amortisation of product development cost and depreciation.

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

For the financial quarter under review, the Group recorded revenue of RM3.357 million and profit before tax of approximately RM0.407 million. This represents a decline of approximately 31.80% in the revenue of the previous financial quarter of RM4.922 million and an increase of approximately 39.38% in the profit before tax against the previous financial quarter of RM0.292 million.

The decline in revenue from the previous quarter was mainly attributable to the increase in market competition and reduction in sales to dealers. The increase in profit before tax as compared to the previous quarter was mainly due to higher gross profit margin contribution from Managed Security Services contracts provided directly to end users.

#### **B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR**

With a strong Malaysian economy in 2007, with growth projected at 6% as well as the implementation of projects under the Ninth Malaysian Plan and the Malaysian Third Industrial Master Plan, the Board of Directors of Extol MSC is of the opinion that the outlook of the ICT 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. In addition, the Group will continue to explore new business opportunities in emerging markets for ICT Security Solutions such as Vietnam, Indonesia and the Middle East region.



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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.

**B5. TAXATION**

There is no taxation on the income of the Group for the period under review.

There is no tax charged on business income as the Company is a MSC-status company and was granted Pioneer Status, which entitles the Company to have tax incentives for five (5) years, with effect from September 2004.

Further, the interest income derived from the Company's short term investments in tax-exempted investment funds are not taxable.

**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 period-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 period-to-date.

**B8. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED**

Save as disclosed below, there are no other corporate proposals announced but not completed as at the date of this report.

**Proposed Acquisition of Innodium Sdn Bhd**

On 18 April 2007, the Company announced that Extol Marketing, had on 16 April 2007, entered into the Agreement for the proposed acquisition of 833,000 ordinary shares of RM1.00 each representing 68% of the issued and paid-up capital in Innodium Sdn Bhd from Ng Soo Loo for a total cash consideration of RM1,700,000. The proposed acquisition is expected to be completed by the third quarter of 2007.



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### B9. STATUS OF UTILISATION OF PROCEEDS

As at 31 March 2007, the Company has utilised approximately 68.86% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation	Actual utilisation as at 31.3.2007		Amount Unutilised		Intended time frame for utilisation
	*					
	RM'000	RM '000	%	RM'000	%	
Research and Development Expenses	3,066	1,483	48.37	1,583	51.63	By 19 March 2009
Business Expansion	1,917	1,304	68.02	613	31.98	By 19 March 2009
Working Capital	1,247	1,005	80.59	242	19.41	By 19 March 2009
Listing Expenses	1,600	1,600	100.00	-	-	-
<b>Total</b>	<b>7,830</b>	<b>5,392</b>	<b>68.86</b>	<b>2,438</b>	<b>31.14</b>	

\* 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 period ended 31 March 2007 and previous financial year ended 31 December 2006 are as follows:

		As at 31 Mar 2007 RM'000	As at 31 Dec 2006 RM'000
Short term borrowings			
Bank overdraft	- secured	16	571
Bills payable	- secured	-	1,385
Hire purchase creditor	- secured	45	49
Term loan	- secured	69	83
Long term borrowings			
Hire purchase	- secured	137	147
Term loan	- secured	524	541
Total Borrowings		<u>791</u>	<u>2,776</u>

### B11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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



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### **B12. MATERIAL LITIGATION**

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:

	<b>Current financial quarter 31 March 2007</b>	<b>Year To-date 31 March 2007</b>
Net profit for the period (RM'000)	407	407
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic Earnings per Ordinary Shares (sen)	0.39	0.39

#### **(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 25 May 2007 in accordance with resolution of the board of directors.