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

QUARTERLY REPORT
Notes to the Quarterly Report
for the Second Quarter Ended 30 June 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**"), Rule 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 preceding annual 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 for the current financial quarter and financial year to date.

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 that have material effect in the current financial quarter under review.

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 securities 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 30 June 2007. As at 30 June 2007, all plant and equipment were stated at cost less accumulated depreciation.

A8. DIVIDEND

No interim ordinary dividend has been declared, recommended or paid during the financial quarter under review.

A9. SEGMENTAL INFORMATION

Extol MSC 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 :-

Current financial quarter ended 30 June 2007	**Anti-Virus Software**	**MSS**	**SEA**	**Total**
	RM'000	RM'000	RM'000	RM'000
Revenue	25	1,230	15	1,270
Profit/(Loss) from operations	(2)	(573)	5	*(570)

Year to date	**Anti-Virus Software**	**MSS**	**SEA**	**Total**
	RM'000	RM'000	RM'000	RM'000
Revenue	61	4,551	15	4,627
Profit/(Loss) from operations	2	(229)	5	*(222)

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.

The main contributor to the Group's revenue is the MSS division. The Group's MSS division registered lower revenue in the quarter under review as compared to the revenue of RM3.321 million in previous quarter, mainly due to market competition and projects being delayed from this segment.

The Group faced intense competition with the entry of new competitors into the information security field. These new competitors offer products in more attractive packages while the Group has always focused on substance of its solutions rather than packaging. However, the Group recognises that the market now puts emphasis on branding / packaging in addition to quality of solutions and is currently evaluating the packaging of its products and services including upgrade of its Secured Operations Centre (MSS Division), website revamp and redesigning of its brochures. The Group believes that it has superior technology in terms of ICT security and will increase its efforts to educate its clients about its technology and competitive advantages.

Another contributing factor for the decrease in revenue in the MSS division is the delay in certain MSS projects with potential clients. The Group expects to secure these contracts in financial year ending 31 December 2007.

The loss before tax is due to the increase in operational expenses as elaborated in Note B1.

A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER

Save as disclosed under Section B8 of this quarterly report, there are no other material events subsequent to the end of the current financial quarter that has not been reflected in the interim financial statements for the current financial year.

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 an acquisition of 833,000 ordinary shares of RM1.00 each representing 68% equity interest in Innodium Sdn Bhd, a MSC status company, for a total purchase consideration of RM1,700,000 to be satisfied in cash. The proposed acquisition was duly completed on 23 July 2007. With the completion of the proposed acquisition, Innodium Sdn. Bhd. has become a 68% owned subsidiary of Extol Marketing Sdn. Bhd., which in turn is a wholly-owned subsidiary of Extol MSC.

Save for the proposed acquisition of Innodium Sdn Bhd, 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 financial year as at 31 December 2006.

A13. CAPITAL COMMITMENTS

As at 30 June 2007, the Group has outstanding capital commitments for the proposed acquisition of the subsidiary amounting to RM1,190,000 which has 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%). The proposed acquisition was duly completed on 23 July 2007. The remaining purchase consideration of RM1,190,000 has been paid on the same day.

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

B. <u>ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES</u>

B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2007

For the financial quarter under review, the Group recorded revenue of RM1.270 million; a decline of 39.58% from the corresponding quarter of the preceding year. The Group also incurred a loss before taxation of RM0.527 million for the financial quarter under review as compared to profit before taxation of RM0.064 million for the corresponding period in the preceding year.

The Group recorded a consolidated loss before taxation of RM0.120 million on the back of revenue of RM4.627 million for the current financial year to date 30 June 2007, whilst during the corresponding period of the preceding year, the Group achieved a consolidated profit before taxation of RM0.525 million on the back of revenue of RM5.111 million. Revenue for the current financial year to date 30 June 2007 decreased by 9.47% whilst profit before taxation for the current financial year to date decreased by 122.86% when compared to the preceding year's corresponding period.

The decline in revenue can be mainly attributable to the increase in market competition and delay in several contracts, particularly in the MSS segment. The loss before tax is also a result of the increase in operating expenses by 58.8% when compared to the preceding year to date 30 June 2006.

The increase in operating expenses during the current financial year-to-date as compared to the preceding year's corresponding period was mainly due to the Group's increased investment in human capital, overseas marketing expenses, amortisation of development cost and depreciation. The Group has increased the number of employees in the marketing and sales division with the objective of further penetrating the market and to increase sales. The Company had also purchased additional hardware for the purpose of research and development to enhance and improve its products and this has resulted in higher depreciation charges.

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

For the financial quarter under review, the Group recorded revenue of RM1.270 million and loss before tax of approximately RM0.527 million. This represents a decline of approximately 62.17% in the revenue of the previous financial quarter of RM3.357 million and decrease of approximately 229.48% in the profit before tax against the previous financial quarter of RM0.407 million.

The decline in revenue is mainly attributable to the increase in market competition and delay in several contracts from its MSS segment, as elaborated in Note A9 above. The decline in loss before taxation is a result of the decline in revenue and also the Group's continuous investment in human capital, overseas marketing expenses, amortisation of development cost and depreciation.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

Notwithstanding a strong Malaysian economy in 2007, and the implementation of projects under the Ninth Malaysian Plan and the Malaysian Third Industrial Master Plan, the Board of Directors of Extol MSC acknowledges that the group is facing intense competition in the ICT security market.

During the first half year ended 30 June 2007, the Extol MSC Group had acquired 68% equity interest in Innodium Sdn Bhd ("**Innodium**") as part of its expansion strategy to continuously identify and take on new opportunities that will broaden its income base and enhance its shareholders value. Innodium has a matured and tested technology in their desktop management suite of products called Innodesk. Access to this technology will provide complementary supporting technologies to Extol MSC Group's newly launched Managed Desktop Program (**"M4"**) as well as to other more established offerings like anti-virus and patch management services. Further to the above, Extol MSC Group may also gain access to existing Innodium markets, which are typically in the Small and Medium Industrial ("**SMI**") sector. Innodium's existing track record and marketing resources will allow Extol MSC to market its more value priced solutions to the SMI market.

Extol MSC is also positioning the Group as the security brand adopted by the banking sector. The Group is currently looking to recruit distribution partners in emerging markets for ICT Security Solutions such as Vietnam, Indonesia and the Middle East. The Group plans to leverage on its local partners and technology partners to build market presence and branding. The Group is confident that more overseas business referrals will follow as efforts are placed to build and nurture strategic partnerships.

Looking upon the above prospects, the Group will increase expenditure by stages to create the supporting infrastructure to offer an end-to-end solution.

Premised on the above and barring any unforeseen circumstances, the management expects the financial performance of the Group to improve for the remaining of 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 financial quarter 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% equity interest in Innodium Sdn Bhd, a MSC status company, for a total cash consideration of RM1,700,000. The proposed acquisition was duly completed on 23 July 2007.

With the completion of the proposed acquisition, Innodium Sdn. Bhd. has become a 68% owned subsidiary of Extol Marketing Sdn. Bhd., which in turn is a wholly-owned subsidiary of Extol MSC.

B9. STATUS OF UTILISATION OF PROCEEDS

As at 30 June 2007, the Company has utilised approximately 75.61% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	**Proposed Utilisation ***	**Actual utilisation as at 30.6.2007**		**Amount Unutilised**		**Intended time frame for utilisation**
	RM'000	**RM '000**	**%**	**RM'000**	**%**	
Research and Development Expenses	3,066	1,721	56.13	1,345	43.87	By 19 March 2009
Business Expansion	1,917	1,594	83.15	323	16.85	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	-	-	-
Total	**7,830**	**5,920**	**75.61**	**1,910**	**24.39**	

* 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 30 June 2007 and previous financial year ended 31 December 2006 are as follows:

		As at 30 June 2007 RM'000	As at 31 Dec 2006 RM'000
Short term borrowings			
Bank overdraft	- secured	20	571
Bills payable	- secured	-	1,385
Hire purchase creditor	- secured	41	49
Term loan	- secured	69	83
Long term borrowings			
Hire purchase	- secured	127	147
Term loan	- secured	506	541
Total Borrowings		763	2,776

B11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

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 OR LOSS PER SHARE

(a) Basic loss per share

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

	Current financial quarter 30 June 2007	Year To-date 30 June 2007
Net loss for the period (RM'000)	527	120
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic loss per Ordinary Shares (sen)	0.50	0.11

(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 28 August 2007 in accordance with resolution of the board of directors.