



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

QUARTERLY REPORT
Notes to the Quarterly Report
for the Third Quarter Ended 30 September 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 for the current financial quarter and financial year to date 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 that have had material effect in the current financial quarter and financial year-to-date results.



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A6. ISSUANCES, CANCELLATIONS, REPURCHASE, RESELL 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 property, plant and equipment during the financial quarter ended 30 September 2007. As at 30 September 2007, all property, 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 September 2007		Anti-Virus			Total
		Software	MSS	SEA	
		RM'000	RM'000	RM'000	RM'000
Revenue		31	2,350	147	2,528
Profit/(Loss) from operations		3	(363)	107	*(253)
Year to date		Anti-Virus	MSS	SEA	Total
		Software	RM'000	RM'000	RM'000
		RM'000	RM'000	RM'000	RM'000
Revenue		92	6,901	162	7,155
Profit/(Loss) from operations		5	(592)	112	*(475)

Note: *Does not include other income, interest income and expenses 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.

The main contributor to the Group's revenue is the MSS division. The Group's MSS division registered a higher revenue of RM2.350 million in the quarter under review as compared to the revenue of RM1.230 million in previous quarter. The increase is due to the efforts undertaken by the Group to market its MSS products. These efforts include revamping marketing kits such as brochures and website in addition to increasing the strength of the marketing force. In terms of product development, the Group is also stepping up its R&D efforts to enhance its offerings.

The loss from operations is mainly due to the increase in operational expenses as elaborated in Note B1.

A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER

There are no 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 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 financial year as at 31 December 2006.

A13. CAPITAL COMMITMENTS

There are no capital commitments in the interim financial statement as at 30 September 2007.



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B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

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

For the financial quarter under review, the Group recorded revenue of RM2.528 million, a decline of 54.83% from the corresponding quarter of the preceding financial year. The Group also incurred a loss before taxation of RM0.219 million for the financial quarter under review as compared to profit before taxation of RM0.755 million for the corresponding period in the preceding year.

The Group recorded a consolidated loss before taxation of RM0.339 million on the back of revenue of RM7.155 million for the current financial year to date 30 September 2007, whilst during the corresponding period of the preceding year, the Group achieved a consolidated profit before taxation of RM1.280 million on the back of revenue of RM10.708 million. Revenue for the current financial year to date 30 September 2007 decreased by 33.18% whilst profit before taxation for the current financial year to date decreased by 126.48% when compared to the preceding year's corresponding period.

The increase in operating expenses for the quarter under review is due to the Group's increased investment in human capital, overseas marketing expenses, amortisation of development cost and depreciation (as a result of the Group stepping up its R&D efforts). 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 has also purchases additional hardware for the purpose of research and development to enhance and improve its products and this has resulted in higher depreciation charges. The Group also incurred additional expenses due to the marketing and publicity efforts undertaken by the Group to heighten its profile. These efforts also include revamping marketing kits such as brochures and website.

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

For the financial quarter under review, the Group recorded revenue of RM2.528 million and loss before tax of approximately RM0.219 million. This represents a increase of approximately 99.06% in the revenue of the previous financial quarter of RM1.270 million and improvement of approximately 58.44% in the loss before tax against the previous financial quarter's loss of RM0.527 million.

In line with the increased in revenue and the Group's increased investment in human capital, operating expenses for the quarter under review of RM1.389 million had increased by 16.82% when compared to the operating expenses during the preceding quarter of RM1.189 million.



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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. Innodium's products have now been integrated into the M4. 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 working with an Australian company to develop a Artificial Neural Networks application. The Group is confident that more overseas business referrals will follow as efforts are placed to build and nurture strategic partnerships.

The Group is also working towards obtaining higher level international standard certification for information security management. With the additional certification, Extol would be able to enhance its competitive position as a top-notch information security solutions provider. The Group is also allocating resources to revamp its marketing efforts, aggressively promote its MSS products and enhance its suit of offerings.

Despite the above effort and due to intense competition faced by the Group, the management expects the financial performance of the Group to remain challenging for the remaining of financial year ending 31 December 2007. However, the management expects the financial performance of Extol Group to improve in the longer term.



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B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE

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

B5. TAXATION

The business income of the Company are not taxable 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.

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

Further, during the current financial quarter under review, the Company has been loss-making. Due to the losses incurred, the management had made an adjustment to reduce the amount of deferred taxation liabilities by approximately RM0.176 million.

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

There are no other 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 30 September 2007, the Company has utilised approximately 80.20% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation	Actual utilisation as at 30.9.2007		Amount Unutilised		Intended time frame for utilisation
	*					
	RM'000	RM '000	%	RM'000	%	
Research and Development Expenses	3,066	1,981	64.61	1,085	35.39	By 19 March 2009
Business Expansion	1,917	1,694	88.37	223	11.63	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	6,280	80.20	1,550	19.80	

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

		As at 30 Sept 2007 RM'000	As at 31 Dec 2006 RM'000
Short term borrowings			
Bank overdraft	- secured	4	571
Bills payable	- secured	-	1,385
Hire purchase creditor	- secured	40	49
Term loan	- secured	87	83
Long term borrowings			
Hire purchase	- secured	117	147
Term loan	- secured	499	541
Total Borrowings		<u>747</u>	<u>2,776</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

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 September 2007	Year To-date 30 September 2007
Net loss for the period (RM'000)	48	168
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic loss per Ordinary Shares (sen)	0.05	0.16

(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 27 November 2007 in accordance with resolution of the board of directors.