



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

QUARTERLY REPORT
Notes to the Quarterly Report
for the Fourth Financial Quarter Ended 31 December 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 has been 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 and should be read in conjunction with the Group’s audited financial statements for the financial year ended (“**FYE**”) 31 December 2006.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of last audited financial statements for the FYE 31 December 2006, except for the adoption of the following new and revised FRS which are effective for the financial period beginning on or after 1 October 2006:

FRS 117	:	Leases
FRS 119	:	Employee Benefits
FRS 124	:	Related Party Disclosures

The adoption of the abovementioned FRSs does not result in a financial impact on the Group .

A2. AUDIT REPORT ON 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 year to date, there are no unusual significant items or events that arose, which affected the assets, liabilities, equity, net income or cash flows.



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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.

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

There were 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

There were no revaluation of property, plant and equipment during the financial year ended 31 December 2007. As at 31 December 2007, all property, plant and equipment were stated at cost less accumulated depreciation.

A8. DIVIDEND

No interim nor final ordinary dividend has been declared, recommended or paid during the financial quarter under review and the financial year to date.

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 31 December 2007	Anti-Virus Software			Total RM'000
	RM'000	MSS RM'000	SEA RM'000	
Revenue	16	5,798	32	5,846
Profit from operations	1	968	18	*987

Year to date	Anti-Virus Software			Total RM'000
	RM'000	MSS RM'000	SEA RM'000	
Revenue	107	12,699	194	13,000
Profit from operations	6	376	129	*511

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.

As with previous quarters, the main contributor to the Group's revenue remains to be the MSS division. This division registered lower revenue amounting to approximately RM12.699 million for the FYE 31 December 2007, a decrease of 16.80% as compared to the revenue of RM15.264 million in the previous FYE 31 December 2006.

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. Since the second quarter of the FYE 31 December 2007, the Group has put in substantial effort and emphasis on re-branding and re-packaging of its solutions in addition to quality of solutions. Amongst others, the Group has completed an upgrade of its secured operations centre processes (MSS division) and revamped its marketing kits (brochures and website). The Group has focused on recruiting additional salesperson but the recruitment process may take some time. Extol is leveraging on more marketing activities as an effort to increase sales. In terms of product development, the Group has stepped up its R&D effort to enhance its offering. In pursuit of excellence, the Company achieved the Quality Management System ISO 9001:2000 certification in 30 November 2007, branding Extol a level higher in terms of its products offering. With the additional certification, Extol is now able to enhance its competitive position as a top-notch information security solutions provider.

Due to the Group's re-branding and marketing efforts to market its MSS products, the Group's MSS division registered substantially higher revenue of RM5.798 million in the quarter under review as compared to the revenue of RM2.350 million in the previous quarter, i.e. an increase of 147%.

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.



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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 31 December 2007.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 2007

For the financial quarter under review, the Group recorded revenue of RM5.846 million, a increase of 18.77% from the corresponding quarter of the preceding financial year of RM4.922 million. The Group also achieved a profit before taxation of RM1.039 million for the financial quarter under review as compared to profit before taxation of RM0.292 million for the corresponding period in the preceding year.

The Group recorded a consolidated profit before taxation of RM0.700 million on the back of revenue of RM13.000 million for the current FYE 31 December 2007 whilst during the corresponding period of the preceding year, the Group achieved a consolidated profit before taxation of RM1.570 million on the back of revenue of RM15.630 million. Revenue for the FYE 31 December 2007 decreased by 16.83% whilst profit before taxation for the current FYE 31 December 2007 decreased by 55.41% when compared to the preceding year’s corresponding period. Notwithstanding the above, gross profit margin of the Group for the FYE 31 December 2007 improved by 9.91 percentage points from 34.77% recorded in the preceding FYE 31 December 2006 to 44.68% due mainly to a higher contribution from MSS products which are of higher margins.



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Please refer to Section A9 for further review of performance of the Group's revenue.

For the FYE 31 December 2007, the Group's operating expenses of approximately RM5.297 million increased by 34.78% from RM3.930 million incurred in the FYE December 2006. The increase in operating expenses for the quarter under review is mainly 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 purchased 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. The efforts undertaken are expected to translate into better revenue for the Group in the future.

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

For the financial quarter under review, the Group recorded revenue of RM5.846 million and profit before tax of approximately RM1.039 million. This represents an increase of approximately 131.25% in the revenue of the previous financial quarter of RM2.528 million and improvement of approximately RM1.258 million in the profit before tax against the previous financial quarter's loss RM0.219 million. The improvement in the performance of the Group is mainly due to improvement in the performance of the MSS division as stated in Note A9.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

Notwithstanding 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 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 Group's Malware Mitigation Maturity Model ("**M4**") as well as to other more established offerings like anti-virus and patch management services. Further to the above, Extol Group may also gain access to Innodium's existing markets, which are typically in the Small and Medium Industrial ("**SMI**") sector. Innodium's existing track record and marketing resources will allow Extol to market its more value priced solutions to the SMI market.



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To accelerate its international growth, the Group has on 13 January 2008 recruited a distribution partner in the Middle East, Benz International Distribution Tech (“**Benz**”), a distribution, marketing and reseller of information security-related products based in Dubai, to market, distribute and resell Extol Corp’s products, namely Armour, Innodesk and ePassport products and professional services of Extol Corp through resellers of Benz to customers in the Europe, Middle East and Africa (“**EMEA**”) region (“**Distributor Agreement**”). Further the above, the Group had on the same date, entered into a memorandum of agreement (“**MOA**”) with Benz to jointly develop and establish a security operations centre to provide a full suite of MSS solutions in the Middle East (“**SOC**”) (“**Proposed Transaction**”). The prospective Proposed Transaction would enable Extol to offer its security solutions to corporate and commercial customers in the Middle East. The MOA, the prospective Proposed Transaction and Distributor Agreement are expected to provide the Group with a platform to penetrate the Middle East region. The Group will be able to leverage on Benz’s networks in the Middle East region and marketing systems for the distribution of the Group’s products.

Aside from the above, the Group is currently looking to recruit further distribution partners in emerging markets for ICT Security Solutions and is currently working with an Australian company and a local company to develop an Artificial Neural Networks application for financial industries. 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.

In pursuit of excellence, the Company achieved the Quality Management System ISO 9001:2000 certification in 30 November 2007, branding Extol a level higher in terms of its products offering. With the additional certification, Extol is now able to enhance its competitive position as a top-notch information security solutions provider. The Group has since the second quarter of the FYE 2007, allocated resources to revamp its marketing efforts, aggressively promote its MSS products and enhance its infrastructures and suite of offerings.

Premised on the above and barring any unforeseen circumstances, the Board expects the financial performance of the Group to improve in the FYE 31 December 2008.

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:

	Cumulative period ended 31 December 2007 RM'000	Cumulative period ended 31 December 2006 RM'000
In respect of the current period		
Income tax	(65)	(21)
Over provision in Previous year	3	-
Deferred tax	<u>(30)</u>	<u>(92)</u>
	<u>(92)</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 RM65,000 for the cumulative period ended 31 December 2007 was provided on chargeable / taxable income of its subsidiary.

For the cumulative financial period ended 31 December 2007, there is a provision of RM30,026 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 sale of unquoted investment and / 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.



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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.

B9. STATUS OF UTILISATION OF PROCEEDS

As at 31 December 2007, the Company has utilised approximately 84.41% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation *	Actual utilisation as at 31.12.2007		Amount Unutilised		Intended time frame for utilisation
	RM'000	RM '000	%	RM'000	%	
Research and Development Expenses	3,066	2,236	72.93	830	27.07	By 19 March 2009
Business Expansion	1,917	1,768	92.23	149	7.77	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	6,609	84.41	1,221	15.59	

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



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B10. GROUP BORROWINGS AND DEBT SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at current financial year ended 31 December 2007 and previous financial year ended 31 December 2006 are as follows:

		As at 31 Dec 2007 RM'000	As at 31 Dec 2006 RM'000
Short term borrowings			
Bank overdraft	- secured	-	571
Bills payable	- secured	844	1,385
Hire purchase creditor	- secured	40	49
Lease creditor	- secured	251	-
Term loan	- secured	68	83
Long term borrowings			
Hire purchase	- secured	107	147
Lease creditor	- secured	733	-
Term loan	- secured	496	541
Total Borrowings		<u>2,539</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.

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.



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B13. EARNINGS OR LOSS PER SHARE

(a) Basic profit per share

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

	Current financial quarter 31 December 2007	Year To-date 31 December 2007
Net profit for the period (RM'000)	733	565
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic profit per Ordinary Shares (sen)	0.70	0.54

(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 February 2008 in accordance with resolution of the board of directors.