



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

**QUARTERLY REPORT**  
**Notes to the Quarterly Report**  
**for the First Financial Quarter Ended 31 March 2008**  
**(The figures have not been audited)**



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

### **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 2007.

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 2007, except with the adoption of the following new and revised Financial Reporting Standards (“**FRSs**”) and IC Interpretations (“**IC Ints**”) which are effective for financial period beginning 1 January 2008:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members’ Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 (2004)-Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

Where applicable, the Group has applied the above new and revised FRSs and IC Ints. The adoption of the abovementioned FRSs and IC Ints do not result in significant changes in accounting policies of the Group.



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

FRS139 Financial Instruments : Recognition and Measurement has been deferred and has not been adopted by the Group.

On 26 March 2008, the Company had announced the change in financial year end from 31 December 2007 to 30 September 2008 and thus the current financial period would run from 1 January 2008 to 30 September 2008 covering a period of nine (9) months, and thereafter, the financial year end of Extol shall be 30 September, of each subsequent year.

### **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 2007 was not subject to any qualification.

### **A3. SEASONALLY OR CYCLICAL FACTORS OF INTERIM OPERATIONS**

The Group's performance is 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.

### **A5. MATERIAL CHANGE IN ESTIMATES**

There were no significant changes in estimates that have had material effect on the current financial quarter under review 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 quarter under review and financial year-to-date.

As at 31 March 2008, all property, plant and equipment were stated at cost less accumulated depreciation.



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

## QUARTERLY REPORT

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

### 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 solutions to counter ICT security threats.

The Group offers ICT security products and solutions 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 and year-to-date ended 31 March 2008</b>	<b>Anti-Virus Software</b>	<b>MSS</b>	<b>SEA</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	16	3,108	7	3,131
Profit/(Loss) from operations	1	(8)	3	*(4)

*Note: \*Does not include other income, interest income and expenses 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 (contributing approximately 99.27% of the Group’s revenue in the current quarter). The division’s revenue registered RM3.108 million for the current quarter, representing a decrease of approximately 6.41% as compared to the revenue of RM3.321 million recorded by the MSS division in the preceding financial year corresponding quarter ended 31 March 2007. In comparison with the revenue generated by the MSS division in the previous quarter ended 31 December 2007 of RM5.798 million, this quarter’s revenue represents a decrease of approximately 46.40%.



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

The Group faced intense competition in the information security field due to entry of competitors. 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. In addition, the Group has stepped up R&D effort to enhance its offering as well as increased investment in human capital and overseas marketing expenses. After extensive development of the Malware Mitigation Maturity Model (“M4”) program under the MSS framework, the Group will place more emphasis on promoting a new service in the M4 program. The Group expects the M4 program to contribute to new revenue growth in the small and medium enterprises sector while leading to other cross-selling and up-selling opportunities within the Financial Services Industries (“FSI”) sector.

In pursuit of excellence, the Company achieved the Quality Management System ISO9001:2000 certification on 30 November 2007. With the additional certification, the Company is able to enhance its competitive position as an information security solutions provider. These efforts are expected to heighten the Group’s profile and contribute positively to the Group’s performance in the longer term.

### **A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER**

There were no material events subsequent to the end of the current financial quarter under review and financial year-to-date that has not been reflected in the interim financial statements.

### **A11. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the current quarter under review and 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 2007.

### **A13. CAPITAL COMMITMENTS**

There are no changes in capital commitments from 31 December 2007 to 31 March 2008.

There are no capital commitments in the interim financial statement as at 31 March 2008.



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

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

#### **B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2008**

For the financial quarter under review, the Group recorded revenue of RM3.131 million, a slight decrease of 6.73% from the corresponding quarter of the preceding financial year of RM3.357 million. Please refer to Section A9 for review of performance of the Group's revenue.

While gross profit margin of the Group remained relatively consistent (the Group recorded a gross profit margin of 54.71% in Q1 2008 as compared to 51.53% in Q1 2007), profit before tax margin of the Group deteriorated substantially from 12.12% recorded in the preceding financial year corresponding quarter ended 31 March 2007 to 0.16% recorded in the current quarter. This represents a decrease of 11.96 percentage points. This was mainly attributable to the following:

- (i) Operating expenses of approximately RM1.717 million increased by approximately 24.24% from RM1.382 million incurred in the financial quarter ended 31 March 2007. The increase in operating expenses is mainly due to the Group's increased investment in human capital, overseas marketing expenses, process improvement costs (during the quarter, the Group has engaged the consultancy services of a professional firm in its effort to effectively improve its processes), research and development expenses as well as amortisation of development costs and depreciation (as a result of the Group stepping up its efforts on research and development). These efforts are expected to contribute positively to the revenue of the Group in the longer term.
- (ii) Decrease in revenue contributed from the MSS division in which MSS products are of higher margins. MSS division recorded a revenue of approximately RM3.108 million in the current quarter, a decrease of approximately 6.41% as compared to revenue recorded in the preceding corresponding quarter ended 31 March 2007 of RM3.321 million. This is due to increased competition faced by the Group as elaborated in Note A9.

The Group also registered a net loss of RM0.024 million for the financial quarter under review as compared to a net profit of RM0.407 million in the corresponding period in the preceding year due to the above.

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

For the financial quarter under review, the Group recorded revenue of approximately RM3.131 million and profit before taxation of approximately RM0.005 million.



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

The Group's revenue decreased by approximately 46.44% as compared with the Group's revenue recorded in the previous quarter ended 31 December 2007 of RM5.846 million. The decrease in revenue is due to heightened demand for the Group's products in the previous quarter ended 31 December 2007, as the Group's customers utilise their purchasing budget by the end of last year for ICT security products and solutions. As a result of the above, the Group's revenue performed exceptionally well last quarter.

Profit before taxation decreased by approximately 99.52% in comparison with the profit before taxation recorded in the previous financial quarter of approximately RM1.039 million. This was attributable to the decrease in revenue and increase in operating expenses as elaborated above.

### **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. These new competitors offer products in more attractive packages while the Group has always focused on substance of its solutions rather than packaging.

During the current quarter, the Group continued to step up its efforts to strengthen the marketing of its products. The Group has recently participated in March 2008 and May 2008 respectively at the Centrum der Buero-und Informationstechnik ("CeBIT") 2008 held in Hannover, Germany and 16<sup>th</sup> World Congress on Information Technology held in Kuala Lumpur. The Group's participation generated strong interests in the Group's product offerings especially from regional participants.

In addition, as part of its strategy to increase awareness and generate interests in its products, the Group is planning to move into a more strategically located premise during the third quarter of FYE 2008 in which a security showcase centre is planned to be built. This security showcase centre is expected to generate interests and increase awareness of the Group's products.

Notwithstanding the above, moving forward, the Group will continue its efforts and focus on research and development to enhance its product offerings and to extend the reach of its marketing network.

The Board expects its investment in Innodium Sdn Bhd to contribute positively to the Group's performance in this financial year.

Premised on the above and barring any unforeseen circumstances, the Board is cautiously optimistic that the financial performance of the Group will remain satisfactory for the financial year ending 30 September 2008.

### **B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE**

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



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

### **B5. TAXATION**

Income tax expense comprises the followings:

	<b>Current quarter and year-to-date ended 31 March 2008 RM'000</b>	<b>Preceding year corresponding period ended 31 March 2007 RM'000</b>
In respect of the current period		
Income tax	(27)	-
Deferred tax	5	-
	<u>(22)</u>	<u>-</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.

The deferred tax liabilities is provided on the temporary differences arising from the subsidiary company's property, plant and equipment and product development expenditure. For the quarter under review, there is write back of RM5,092 due to reversal of deferred tax liabilities. The income tax of RM27,121 for the cumulative period ended 31 March 2008 is provided on chargeable income of a subsidiary company.

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

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





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

## QUARTERLY REPORT

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

### B9. STATUS OF UTILISATION OF PROCEEDS

As at 31 March 2008, the Company has utilised approximately 92.18% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation *	Actual utilisation as at 31.3.2008		Amount Unutilised		Intended time frame for utilisation
	RM'000	RM '000	%	RM'000	%	
Research and Development Expenses	3,066	2,454	80.04	612	19.96	By 19 March 2009
Business Expansion	1,917	1,917	100.00	-	-	By 19 March 2009
Working Capital	1,247	1,247	100.00	-	-	By 19 March 2009
Listing Expenses	1,600	1,600	100.00	-	-	-
<b>Total</b>	<b>7,830</b>	<b>7,218</b>	<b>92.18</b>	<b>612</b>	<b>7.82</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 2008 and previous financial year ended 31 December 2007 are as follows:

		As at 31 Mar 2008 RM'000	As at 31 Dec 2007 RM'000
Short term borrowings			
Bank overdraft	- secured	190	-
Bills payable	- secured	2,239	844
Hire purchase creditor	- secured	40	40
Lease creditor	- secured	251	251
Term loan	- secured	87	68
Long term borrowings			
Hire purchase	- secured	97	107
Lease creditor	- secured	670	733
Term loan	- secured	458	496
<b>Total Borrowings</b>		<b>4,032</b>	<b>2,539</b>



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

## **QUARTERLY REPORT**

Notes to the Quarterly Report for the first financial quarter ended 31 March 2008  
(The figures have not been audited)

### **B11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

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

### **B12. MATERIAL LITIGATION**

There were 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 profit per share**

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

	<b>Current financial quarter 31 March 2008</b>	<b>Year To-date 31 March 2008</b>
Net loss for the period (RM'000)	(24)	(24)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic loss per Ordinary Shares (sen)	(0.02)	(0.02)

#### **(b) Fully diluted earnings per share**

Not applicable. As at the financial quarter ended 31 March 2008, 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 May 2008 in accordance with resolution of the board of directors.