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

QUARTERLY REPORT
Notes to the Quarterly Report
for the Second Financial Quarter Ended 30 June 2008
(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" 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 adopted 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. The following new and revised Financial Reporting Standards (**"FRSs"**) and new interpretations are effective for the financial period beginning on or after 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. The adoption of the abovementioned FRSs does not result in significant changes in accounting policies of the Group.

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 FYE from 31 December to FYE September 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 FYE 31 December 2007 was not subject to any qualification.

A3. SEASONALLY OR CYCLICAL FACTORS OF INTERIM OPERATIONS

The Group's operations are not materially affected by any major seasonal or cyclical factors during the financial quarter under review and current 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 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 material 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 repayments 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 30 June 2008, 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 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 :-

Current financial quarter ended 30 June 2008	**Anti-Virus Software**	**MSS**	**SEA**	**Total**
	RM’000	RM’000	RM’000	RM’000
Revenue	11	4,072	225	4,308
Profit/(Loss) from operations	0	(317)	137	*(180)

Year to date	**Anti-Virus Software**	**MSS**	**SEA**	**Total**
	RM’000	RM’000	RM’000	RM’000
Revenue	27	7,180	232	7,439
Profit/(Loss) from operations	1	(325)	140	*(184)

*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 94.52% of the Group’s revenue in the current quarter). The division registered revenue of RM4.072 million for the current quarter, representing an increase of approximately 231.06% as compared to the revenue of RM1.230 million recorded by the MSS division in the preceding financial year corresponding quarter ended 30 June 2007. In comparison with the revenue generated by the MSS division in the previous quarter ended 31 March 2008 of RM3.108 million, this quarter’s revenue represents an increase of approximately 31.02%. The improvement were the fruits of the group’s enhanced marketing effort for its MSS products.

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 FYE 31 December 2007 to 30 June 2008.

A13. CAPITAL COMMITMENTS

There are no changes in capital commitments from 31 December 2007 to 30 June 2008.

There are no capital commitments in the interim financial statement as at 30 June 2008.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2008

	Individual Quarter		Cumulative Quarter	
	Current financial year quarter 30.06.08 RM'000	Preceding financial year corresponding quarter 30.06.07 RM'000	Current financial year to date 30.06.08 RM'000	Preceding financial year corresponding period 30.06.07 RM'000
Revenue	4,308	1,270	7,439	4,627
Loss before tax ("LBT")	(165)	(527)	(160)	(120)
LBT margin (%)	(3.83)	(41.50)	(2.15)	(2.59)

For the financial quarter under review, the Group recorded revenue of approximately RM4.308 million, an increase of approximately 239.21% from the corresponding quarter of the preceding financial year of approximately RM1.270 million. The Group also incurred a LBT of approximately RM0.165 million for the financial quarter under review as compared to LBT of approximately RM0.527 million for the corresponding period in the preceding year.

The improvement in financial performance during the current quarter are mainly due to improvement in the demand for the Group's MSS products during the current quarter, which was also a result of the group's enhanced marketing efforts for the past year.

For the six (6) months to 30 June 2008, the Group recorded a consolidated LBT of approximately RM0.160 million on the back of revenue of approximately RM7.439 million. During the corresponding period of the preceding year, the Group recorded a consolidated LBT of approximately RM0.120 million on the back of revenue of approximately RM4.627 million. Whilst revenue for the current financial year to date ended 30 June 2008 showed a marked improvement by approximately 60.77% from the preceding year, LBT for the current financial year to date was higher by approximately RM0.04 million when compared to the preceding year's corresponding period.

The reason for the higher LBT despite increase in revenue is as follows: -

(i) Operating expenses of approximately RM3.332 million increased by approximately 29.60% from RM2.571 million incurred in the financial year-to-date 30 June 2007. The increase in operating expenses is mainly due to the Group's increased investment in human capital, overseas marketing expenses, process improvement costs (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) The Group's gross profit margin reduced by approximately 8.45 percentage points for the financial year to date 30 June 2008 when compared to the preceding year-to-date 30 June 2007.

The drop was mainly attributable to higher mix of product solutions sold this quarter which carries lower margin than the Group's proprietary solutions.

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

	Current Quarter 30.06.08 RM'000	Immediate Preceding Quarter 31.03.08 RM'000
Revenue	4,308	3,131
(LBT) / PBT	(165)	5

For the financial quarter under review, the Group recorded revenue of approximately RM4.308 million and LBT of approximately RM0.165 million.

The Group's revenue increased by approximately 37.59% as compared with the Group's revenue recorded in the previous quarter ended 31 March 2008 of RM3.131 million. The increase in revenue is mainly due to improvement in the performance of the MSS division.

Whilst revenue showed a marked improvement, profitability fell, mainly as a result of the following:

(i) Reduction in gross profit margin by approximately 15.43 percentage points due mainly to higher sale of proprietary solutions during the preceding quarter ended 31 March 2008 which are of higher margins as compared to higher sale of product solutions during the current quarter; and

(ii) Increase in staff costs by approximately RM0.12 million as a result of an increase in a number of higher qualified staff.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

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 particular, 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.

The Group has taken initiatives to step up its efforts to strengthen the marketing of its products. In March 2008 and May 2008, the Group has participated at the Centrum der Buero Centrum der Buero-und Informationstechnik ("**CeBIT**") 2008 held in Hannover, Germany and 16th 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. The events gave the Group an opportunity to gauge and strategize on its product offerings while identifying potential partners who can resell the Groups products.

As a result of the above initiatives, demand for the Group's ICT security solutions had shown marked improvement during the current quarter ended 30 June 2008. This marked improvement contributed to the improvement of the Group's profitability.

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 last 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.

For the year-to-date ended 30 June 2008, the Group's investment in Innodium Sdn Bhd has contributed approximately RM0.071 million to the Group's performance. The Board expects this positive contribution to continue for the remaining months of the financial year ending 30 September 2008.

The Board expects the remaining months of the financial year ending 30 September 2008 to be challenging as the group incurs more expenses which is expected to contribute to future profitability beyond 2008.

B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE

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

B5. TAXATION

Income tax expense comprises the followings:

	Current quarter and year-to-date ended 30 June 2008 RM'000	Preceding year corresponding period ended 30 June 2007 RM'000
In respect of the current period		
Income tax	-	-
Deferred tax	99	-
	99	-

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 financial quarter to date under review, there is write back of RM98,677 due to reversal of deferred tax liabilities.

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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.

B9. STATUS OF UTILISATION OF PROCEEDS

As at 30 June 2008, the Company has utilised approximately 95.02% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	**Proposed Utilisation** *	**Actual utilisation as at 30.6.2008**		**Amount Unutilised**		**Intended time frame for utilisation**
	RM'000	**RM '000**	**%**	**RM'000**	**%**	
Research and Development Expenses	3,066	2,676	87.28	390	12.72	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	-	-	-
Total	**7,830**	**7,440**	**95.02**	**390**	**4.98**	

** 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 period ended 30 June 2008 and previous financial year ended 31 December 2007 are as follows:

		As at 30 June 2008 RM'000	As at 31 Dec 2007 RM'000
Short term borrowings			
Bank overdraft	- secured	11	-
Bills payable	- secured	1,665	844
Hire purchase creditor	- secured	40	40
Lease creditor	- secured	251	251
Term loan	- secured	86	68
Long term borrowings			
Hire purchase	- secured	87	107
Lease creditor	- secured	607	733
Term loan	- secured	436	496
Total Borrowings		3,183	2,539

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.

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B13. EARNINGS OR LOSS PER SHARE

(a) Basic profit 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 2008	**Year To-date 30 June 2008**
Net loss for the period (RM'000)	(71)	(95)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic loss per Ordinary Shares (sen)	(0.07)	(0.09)

(b) Fully diluted earnings per share

Not applicable. As at the financial quarter ended 30 June 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 August 2008 in accordance with resolution of the board of directors.