



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

QUARTERLY REPORT

Notes to the Quarterly Report

for the First Quarter of the Financial Year Ending 30 September 2009

(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**”) 30 September 2008.

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 30 September 2008.

FRS 139 Financial Instruments : Recognition and Measurement has been deferred up to 1 January 2010 and has not been adopted by the Group.

A2. AUDIT REPORT ON THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report on the preceding annual financial statements for the FYE 30 September 2008 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.



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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 31 December 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 and year-to-date ended 31 December 2008	Anti-Virus Software	MSS	SEA	Total
		RM'000	RM'000	RM'000
Revenue	9	4,453	18	4,480
(Loss)/Profit from operations	(5)	(1,457)	9	*(1,453)

*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.



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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 30 September 2008.

A13. CAPITAL COMMITMENTS

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

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

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

B1. REVIEW OF PERFORMANCE FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 2008

	Three (3) months ended 31.12.08	Three (3) months ended 31.12.07
	RM'000	RM'000
Revenue	<u>4,480</u>	<u>5,846</u>
(Loss)/Profit before tax ("LBT"/"PBT")	<u>(1,470)</u>	<u>1,039</u>
(LBT)/PBT margin (%)	<u>(32.81)</u>	<u>17.77</u>

For the financial quarter under review, the Group recorded revenue of approximately RM4.480 million, a decrease of approximately 23.37% from approximately RM5.846 million recorded in the three (3) months ended 31 December 2007. The Group also incurred a LBT of approximately RM1.470 million for the financial quarter under review as compared to PBT of approximately RM1.039 million recorded in the three (3) months ended 31 December 2007.



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The decline in revenue can be mainly attributable to enterprises cutting back on technology spending during this economic downturn.

The Group recorded a gross profit margin of 14.06% for the financial quarter under review as compared to 39.75% in the three (3) months ended 31 December 2007. This represents a decrease of 25.69 percentage points. This was mainly due to the higher percentage mix of product solutions sold this quarter which carries lower margin.

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

	Current Quarter 31.12.08 RM'000	Immediate Preceding Quarter 30.09.08 RM'000
Revenue	4,480	2,440
(LBT) / PBT	(1,470)	232

For the financial quarter under review, the Group recorded revenue of approximately RM4.480 million and LBT of approximately RM1.470 million.

The Group's revenue increased by approximately 83.61% as compared with the Group's revenue recorded in the previous quarter ended 30 September 2008 of RM2.440 million.

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

- (i) Reduction in gross profit margin by approximately 61.68 percentage points due mainly to the higher percentage mix of product solutions sold this quarter which carries lower margin;
- (ii) Increase in staff costs as a result of an increase in a number of qualified staff as compared to immediate preceding quarter;
- (iii) Increase in amortisation of development cost and depreciation (as a result of the Group stepping up its efforts on research and development ("R&D")); and
- (iv) Increase in rental expenses which arose from the Group's new office premise.



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B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

The Group continues to place substantial effort and emphasis on re-branding, re-packaging and enhancing quality of solutions. The Group further increased investment in human capital for R&D research to fast track artificial intelligence research to create next generation smart applications. Promotion and creating awareness for Malware Mitigation Maturity Model ("M4") program under the MSS framework has carried forward from previous quarter as the Group expects the M4 program to contribute to new revenue growth in the small and medium enterprises sector.

The Board of Directors of the Company expects the coming financial year ending 30 September 2009 to be challenging due mainly to the general economic slowdown and the external effects of the global financial turmoil. Customers across all industries are expected to scale down their operating costs including investments in ICT solutions.

The Group continues to strive to improve its financial performance. 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.

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 ended 31 December 2008 RM'000	Preceding year corresponding period ended 31 December 2007 RM'000
In respect of the current period		
Income tax	-	(65)
Deferred tax	58	(30)
	<hr/> 58	<hr/> (95)
Over provision in previous year	-	3
Total	<hr/> <hr/> 58	<hr/> <hr/> (92)



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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 Group's effective tax rate is thus lower than the Malaysian Statutory tax rate of 26%.

The deferred tax liabilities are 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 RM58,132 due to reversal of deferred tax liabilities.

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

The Initial Public Offering ("IPO") was completed on 20 March 2006. As at 31 December 2008, the Company has fully utilised the proceeds raised from the IPO.



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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 31 December 2008 and previous FYE 30 September 2008 are as follows:

		As at 31 Dec 2008 RM'000	As at 30 Sept 2008 RM'000
Short term borrowings			
Bills payable	- secured	2,999	362
Hire purchase creditor	- secured	40	40
Lease creditor	- secured	361	361
Term loan	- secured	81	81
Long term borrowings			
Hire purchase	- secured	67	77
Lease creditor	- secured	774	864
Term loan	- secured	397	419
Total Borrowings		<u>4,719</u>	<u>2,204</u>

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 earnings per share

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

	Current financial quarter ended 31 December 2008	Year to-date ended 31 December 2008
Net loss attributable to equity holders of the Company (RM'000)	1,381	1,381
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic loss per ordinary shares (sen)	1.32	1.32

(b) Fully diluted earnings per share

Not applicable. As at the financial quarter ended 31 December 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 27 February 2009 in accordance with resolution of the board of directors.