



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

QUARTERLY REPORT

Notes to the Quarterly Report

for the Final Quarter of the Financial Year Ended 30 September 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.



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FRS139 Financial Instruments : Recognition and Measurement has been deferred up to 1 January 2010 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 30 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 September 2008, all property, plant and equipment were stated at cost less accumulated depreciation.



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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 September 2008	Anti-Virus Software	MSS	SEA	Total
	RM'000	RM'000	RM'000	RM'000
Revenue	11	2,429	0	2,440
Profit/(Loss) from operations	0	223	(35)	*188

Year to date	Anti-Virus Software	MSS	SEA	Total
	RM'000	RM'000	RM'000	RM'000
Revenue	38	9,609	232	9,879
Profit/(Loss) from operations	1	(102)	105	*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.

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.



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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 September 2008.

A13. CAPITAL COMMITMENTS

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

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

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES

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

	Individual Quarter		Cumulative Quarters	
	Three (3) months ended 30.09.08	Three (3) months ended 30.09.07	Nine (9) months ended 30.09.08	Nine (9) months ended 30.09.07
	RM'000	RM'000	RM'000	RM'000
Revenue	<u>2,440</u>	<u>2,528</u>	<u>9,879</u>	<u>7,155</u>
Profit/(Loss) before tax ("PBT"/"(LBT)")	<u>232</u>	<u>(219)</u>	<u>72</u>	<u>(339)</u>
PBT/(LBT) margin (%)	<u>9.51</u>	<u>(8.66)</u>	<u>0.73</u>	<u>(4.74)</u>

Note:

(1) On 26 March 2008, the Company had announced the change in financial year end from 31 December to 30 September. The previously announced results for the third quarter ended 30 September 2007 for the last financial year is set out above for comparative purposes only.

For the financial quarter under review, the Group recorded revenue of approximately RM2.440 million, a decrease of approximately 3.48% from approximately RM2.528 million recorded in the three (3) months ended 30 September 2007. However, the Group achieved a PBT of approximately RM0.232 million for the financial quarter under review as compared to LBT of approximately RM0.219 million recorded in the three (3) months ended 30 September 2007, which represents an improvement of approximately RM0.451 million.

Despite the slight reduction in revenue, the Group's PBT had improved. This was mainly due to improved demand for the Group's proprietary solutions which carries higher margin.



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For the cumulative nine (9) months period to 30 September 2008, the Group recorded a consolidated PBT of approximately RM0.072 million on the back of revenue of approximately RM9.879 million. In comparison, during the nine (9) months period to 30 September 2007, the Group recorded a consolidated LBT of approximately RM0.339 million on the back of revenue of approximately RM7.155 million. Both revenue and PBT for the current financial year to date ended 30 September 2008 showed marked improvement by approximately RM2.724 million and RM0.411 million, respectively, when compared to the nine (9) months period to 30 September 2007.

The overall higher PBT and PBT margin are mainly due to improvement in the demand for the Group's proprietary solutions as mentioned above.

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

	Current Quarter	Immediate Preceding
	30.09.08	Quarter
	RM'000	30.06.08
	RM'000	RM'000
Revenue	2,440	4,308
PBT / (LBT)	232	(165)

For the financial quarter under review, the Group recorded revenue of approximately RM2.440 million and PBT of approximately RM0.232 million.

As compared to the previous quarter's revenue of approximately RM4.308 million which had surged due mainly to a one-off high value MSS contract, the results for the current quarter had decreased by approximately 43.36%.

Despite the reduction in revenue, the Group's PBT had improved. This was mainly due to improved demand for the Group's proprietary solutions which carries higher margin.

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.



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The Group continues to take initiatives to step up its efforts to strengthen the marketing of its products. In August 2008 and September 2008, the Group has participated in the ASOCIO Business Exchange program held in Xiamen, China, the Information Security Management System public workshop with the Group's chief executive officer as guest speaker and exhibited at the Microsoft Tech.Ed 2008 SEA event held in Kuala Lumpur. The Group's chief executive officer, Mr Justin Tan was also invited for a panel discussion on information security by PIKOM in September 2008. The events gave the Group an opportunity to gauge and strategize on its product offerings while identifying potential business opportunities.

Further, the Group is has moved into a more strategically located premise in September 2008 in which a security showcase centre is built. This security showcase centre is expected to generate interests and increase awareness of the Group's products.

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.

Despite improvement in the Group's profitability since the previous financial quarter ended 30 June 2008, 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.

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:

	Current quarter and year-to-date ended 30 September 2008 RM'000	Preceding year corresponding period ended 30 September 2007 RM'000
In respect of the current period		
Income tax	(30)	(2)
Deferred tax	43	176
	<u>13</u>	<u>174</u>
Over provision in previous year	6	-
Total income tax expense	<u>19</u>	<u>174</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 RM30,000 for the nine-months ended 30 September 2008 was provided on chargeable / taxable income of its subsidiary.

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 RM42,582 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.



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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 September 2008, the Company has utilised approximately 98.54% of the proceeds raised from its Initial Public Offering on 20 March 2006.

Purpose	Proposed Utilisation *	Actual utilisation as at 30.9.2008		Amount Unutilised		Intended time frame for utilisation
	RM'000	RM '000	%	RM'000	%	
Research and Development Expenses	3,066	2,952	96.28	114	3.72	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	7,716	98.54	114	1.46	

* 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 FYE 30 September 2008 and previous FYE 31 December 2007 are as follows:

		As at 30 Sept 2008 RM'000	As at 31 Dec 2007 RM'000
Short term borrowings			
Bank overdraft	- secured	-	-
Bills payable	- secured	362	844
Hire purchase creditor	- secured	40	40
Lease creditor	- secured	361	251
Term loan	- secured	81	68
Long term borrowings			
Hire purchase	- secured	77	107
Lease creditor	- secured	864	733
Term loan	- secured	419	496
Total Borrowings		<u>2,204</u>	<u>2,539</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 30 September 2008	Year to-date ended 30 September 2008
Net profit for the period (RM'000)	179	84
Weighted average number of ordinary shares of RM0.10 in issue ('000)	104,400	104,400
Basic earnings per ordinary shares (sen)	0.17	0.08

(b) Fully diluted earnings per share

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