

**QUARTERLY REPORT**

Notes to the Quarterly Report for the Third Quarter Ended 30 June 2014  
(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 financial statements 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 Malaysian Financial Reporting Standard (“**MFRS**”) 134 “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“**MASB**”), Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the ACE Market.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended (“**FYE**”) 30 September 2013 and the accompanying explanatory notes. These explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 30 September 2013.

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those adopted in the annual audited financial statements for the FYE 30 September 2013 except for the first-time adoption of MFRS Framework.

The Group has adopted the new MFRS Framework issued by the MASB with effect from 1 October 2013. This MFRS Framework comprises International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

In the transition to the MFRS Framework, the Group has applied MFRS 1 “First-time Adoption of MFRS” which provides certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters. Save for the required presentation of three statements of financial position in the first MFRS financial statements, there is no other significant impact on the Group’s financial results and position, and changes to the accounting policies of the Group arising from the adoption of this MFRS Framework as the requirements under the previous Financial Reporting Standards (“**FRS**”) Framework were equivalent to the MFRS Framework, although there are some difference in relation to the transitional provisions and effective dates contained in certain of the MFRSs.

**MFRSs and Amendments to MFRSs that are applicable to the Group but not yet effective**

<b>MFRSs</b>	<b>Title</b>	<b>Effective date</b>
9	Financial Instruments: <i>Classification and Measurement of Financial Assets and Financial Liabilities</i>	1 January 2015
10	Consolidated Financial Statements	1 January 2013
11	Joint arrangements	1 January 2013
12	Disclosure of Interest in Other Entities	1 January 2013
13	Fair Value Measurement	1 January 2013
119	Employee Benefits	1 January 2013
127	Separate Financial Statements	1 January 2013
132	Financial Instruments: <i>Offsetting Financial Assets and Financial Liabilities (Amendment to FRS 132)</i>	1 January 2014

The impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and Company is not expected to be material.

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**A2. AUDIT REPORT ON THE PRECEDING ANNUAL FINANCIAL STATEMENTS**

The audit report on the preceding annual financial statements for the FYE 30 September 2013 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 financial period-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 period-to-date.

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

There were no issuance, cancellations, repurchase, resale and repayments of debts and equity securities held as treasury shares or resale of treasury shares during the current financial quarter under review and financial period-to-date.

**A7. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

The Company has reclassified the freehold office building from property, plant and equipment to investment properties.

There were no revaluation of property, plant and equipment during the financial quarter under review and financial period-to-date.

As at 31 December 2013, all property, plant and equipment were stated at cost less accumulated depreciation.

**A8. DIVIDEND PAID**

No dividend was declared, approved or paid during the financial quarter under review and financial period-to-date.

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**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 and services, consultancy, forensic research and training known as Managed Security Solutions (“MSS”).

In addition, The Group also offers security-enhanced enterprise applications solutions known as Secured Enterprise Application (“SEA”) which is included under OTHERS.

The segmental revenue and results of the Group are as follows:

	<b>Individual</b>		<b>Cumulative Quarter</b>	
	<b>Three (3) months ended</b>	<b>Three (3) months ended</b>	<b>Three (3) months ended</b>	<b>Three (3) months ended</b>
	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>RM’000</b>	<b>RM’000</b>	<b>RM’000</b>	<b>RM’000</b>
<b>Segment Revenue</b>				
MSS	330	3,739	10,373	12,820
OTHERS	1,719	67	1,787	325
	<u>2,049</u>	<u>3,806</u>	<u>12,160</u>	<u>13,145</u>
Inter-segment revenue	(760)	(834)	(3,508)	(2,110)
Total revenue	<u>1,289</u>	<u>2,972</u>	<u>8,652</u>	<u>11,035</u>
<b>Segment Results</b>				
MSS	(6,875)	84	(8,384)	(544)
OTHERS	(1,433)	(25)	(1,444)	(155)
(Loss)/Profit from operations	<u>(8,308)</u>	<u>59</u>	<u>(9,828)</u>	<u>(699)</u>
Financial cost	-	(3)	-	(15)
(Loss)/Profit before taxation	<u>(8,308)</u>	<u>56</u>	<u>(9,828)</u>	<u>(714)</u>

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

There were no material events to the end of the current financial quarter under review and financial period-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 financial quarter under review and financial period-to-date.

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**A12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS**

Pursuant to material litigation disclosed in Notes B9 disclosed in this quarterly report, the management is seeking legal advice to defend an action brought by XConnect against Extol Ventures Sdn Bhd. Based on preliminary assessment of the case, Directors are of the opinion that provisions are not required in respect of this matter, as the Writ of Summons and Statement of Claim is not expected to have any material financial and operational impact on the Group. At this juncture, Directors are also of the opinion that the amount of claim is not capable of reliable measurement.

**A13. OPERATING LEASE COMMITMENTS**

(a) Operating lease commitments as lessee

The future minimum lease payments payable under non-cancellable operating leases are:

	<b>Group</b>	
	<b>30 June</b>	<b>30 September</b>
	<b>2014</b>	<b>2013</b>
	RM	RM
Within one year	723,941	-
Later than one year but not later than two years	904,926	-
Later that two years but not later than five years	-	-
Later than five year	-	-
	<u>1,628,867</u>	<u>-</u>

(b) Leasing arrangements

The Group leases a number of computer equipment software under non-cancellable operating lease agreements. The lease term is 3 years. None of the leases includes contingent rentals.

**A14. SIGNIFICANT RELATED PARTY TRANSACTIONS**

The Directors of the Company are of the opinion that there are no related party transactions which would have a material impact on the financial position and the business of the Group during the current financial quarter under review and financial year-to-date.

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**B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF THE BURSA SECURITIES FOR THE ACE MARKET**

**B1. REVIEW OF PERFORMANCE FOR THE CURRENT QUARTER AND FINANCIAL PERIOD-TO-DATE ENDED 30 JUNE 2013**

The Group recorded revenue in the current quarter ended 30 June 2014 of RM1.29 million, representing a decrease of approximately 56.6% as compared to the revenue of corresponding quarter of the preceding year ended 30 June 2013 of RM2.97 million. The decrease in revenue was mainly attributed to the low volume of sales as compared to the corresponding quarter of the preceding year ended 30 June 2013.

The Group's incurred loss after taxation ("LAT") of RM8.31 million for the current quarter under review as compared to profit after tax of RM0.07 million recorded in the corresponding quarter of the preceding year.

**B2. COMPARISON OF CURRENT QUARTER WITH THE IMMEDIATE PRECEDING QUARTER**

	<b>Current Quarter 30 June 2014 RM'000</b>	<b>Preceding Quarter 31 March 2014 RM'000</b>
Revenue	1,289	2,122
Gross (loss)/profits	(491)	717
Gross Margin	(38.1%)	33.79%
Loss before taxation ("LBT")	(8,308)	(694)

The Group recorded revenue in the current quarter ended 30 June 2014 of RM1.29 million, representing a decrease of 39.2% as compared to the revenue of previous quarter ended 31 March 2014 of RM2.12 million. The reduction in revenue and gross profit are mainly due to the stiff competition in the market and inventories written off. The inventories were written off because the inventories were not locatable.

The Group incurred LBT of RM 8.3 million for the current quarter under review as compared to LBT of RM0.69 million recorded in the previous quarter ended 31 March 2014. The increase in LBT is mainly due the followings:-

- (i) written off all Plant and Equipment ("PPE") which are un-locatable amounting to RM0.34 million due to these assets has no future economic benefits are expected;
- (ii) fully impair the goodwill amounting to RM3.51 million due to the management do not foresee any major business development which may turn around the respective financial position of from all subsidiaries in the near future;
- (iii) written off the entire product development expenditure due to the products have not future economic benefits are expected

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**B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR**

Despite the challenging company performance in the recent quarters, our Group is optimistic about the company's future by implementing a few business reformation strategies. The Group is currently undergoing some business division restructuring in order to expand our market share in the IT security business while expanding our market reach in the various markets.

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

Not applicable as no profit forecast or profit guarantee was provided

**B5. TAXATION**

Income tax expense comprises the followings:

	<b>Individual</b>		<b>Cumulative Quarter</b>	
	<b>Three (3) months ended</b>		<b>Three (3) months ended</b>	
	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
	RM'000	RM'000	RM'000	RM'000
In respect of the current period				
Income Tax	-	(56)	-	(77)
Deferred Tax	-	63	113	111
Total income tax expense	-	7	113	34

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 was granted for 5 years period commencing from 27 September 2004. The Company submitted an application to Multimedia Development Corporation ("MDEC") for an extension of the pioneer status in August 2009 and approval was granted in 11 May 2010 for another 5 years. The company was granted the MSC status on 8 September 2004.

The Group's current effective tax rate is thus lower than the Malaysian Statutory tax rate of 25 %.

The deferred tax liabilities are provided on the temporary differences arising from the subsidiary company's property, plant and equipment and product development expenditure.

**B6. STATUS OF CORPORATE PROPOSALS**

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

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**B7. STATUS OF UTILISATION OF PROCEEDS**

The Company's Private Placement of 12,632,400 new ordinary share was completed on 28 January 2014.

The Status of utilization of the proceeds from Private Placement as follows:

<b>Purpose</b>	<b>Proceeds Raise RM'000</b>	<b>Amount Utilised RM'000</b>	<b>Amount Unutilised RM'000</b>	<b>Intended Timeframe for utilization (from the date of list of the placement shares i.e 28 January 2014)</b>
Working Capital	1,177	540	637	Within 12 months
Listing Expenses	149	149	-	Within 1 month
<b>Total</b>	<b>1,326</b>	<b>689</b>	<b>637</b>	

**B8. GROUP BORROWINGS AND DEBT SECURITIES**

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at current FPE 30 June 2014 and previous FYE 30 September 2013 are as follows:

		<b>As at 30 June 2014 RM'000</b>	<b>As at 30 September 2013 RM'000</b>
Short term - secured borrowings		500	500
Long term - secured borrowings		500	500
Total term borrowings		<u>1,000</u>	<u>1,000</u>

**B9. MATERIAL LITIGATION**

As at the reporting date, the following are the material litigation against the Group.

The Company announced that on 20 August 2014, a sealed copy of Writ of Summons and Statement of Claim dated 19 August 2014 was served to Extol Ventures Sdn Bhd ("EVSB" or "the Defendant"), a wholly owned subsidiary, by Messrs Wong & Partners, the Advocates & Solicitors for Xconnect Global Networks Limited ("XConnect" or "the Plaintiff").

The Writ of Summons and Statement of Claim dated 19 August 2014 was filed to the Sessions Court at Kuala Lumpur in Wilayah Persekutuan with Kuala Lumpur Sessions Court Suit No: B52NCvC-246-08/2014 and have been fixed for hearing on 22 September 2014 at Jalan Duta Court Complex, Kuala Lumpur for case management.

**EXTOL MSC BERHAD**

Company No. 643683-U  
(Incorporated in Malaysia)

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**B9. MATERIAL LITIGATION (CONT'D)**

Details of claims by The Plaintiff from the Defendant are as follow:-

- i. An order for the delivery up of the PoP Equipment as stated in the Statement of Claim and damage to be assessed;
- ii. Alternatively, judgment in the sum of US\$171,071.58 to be paid by Defendant;
- iii. Damages for detention of the PoP Equipment as stated in the Statement of Claim;
- iv. Alternatively, damages for conversion of the PoP Equipment as stated in the Statement of Claim;
- v. Interest on all sums found due and payable by the Defendant under Section 11 of the Civil Law Act, 1965 at the rate of 5% per annum from 19.08.2014 until full payment;
- vi. Costs; and
- vii. Such further and other relief as the Court deems fit and proper

**B10. EARNINGS OR LOSS PER SHARE**

## (a) Basic earnings per share

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

	<b>Current Quarter ended 30 June 2014</b>	<b>Year To-date ended 30 June 2014</b>
Net loss attributed to equity holders of the company (RM'000)	(8,308)	(9,828)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	138,956	126,324
Basic loss per ordinary shares (sen)	(5.98)	(7.78)

## (b) Fully diluted earnings per share

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

	<b>Current Quarter ended 30 June 2014</b>	<b>Year To-date-ended 30 June 2014</b>
Net loss attributed to equity holders of the company (RM'000)	(8,308)	(9,828)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	138,956	133,496
Diluted loss per ordinary shares (sen)	(5.98)	(7.36)



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**B11. REALISED AND UNREALISED PROFITS DISCLOSURE**

Total retained profit may be analysed as follows:

	<b>As at 30 June 2014 RM'000</b>	<b>As at 30 June 2013 RM'000</b>
Total retained (loss)/profits of the Group		
- Realised	(8,499)	2,035
- Unrealised	(113)	(143)
	<u>(8,612)</u>	<u>1,892</u>
Less: Consolidation adjustments	(1,068)	(1,068)
	<u>(9,680)</u>	<u>824</u>
Total retained (loss)/profits as per statement of financial position	<u>(9,680)</u>	<u>824</u>

**B12. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Total comprehensive income for the period was derived after charging / (crediting) the following items:

	<b>Current Year Quarter 30 June 2014 RM'000</b>	<b>Current Year to Date 30 June 2014 RM'000</b>
Interest income	(17)	(64)
Other income	(80)	(83)
Interest expenses	-	-
Depreciation and amortization	237	780
Bad debts written-off	206	206
Inventories written-off	134	134
Provision for written –off of receivables	-	-
Provision for written-off of inventories	-	-
Property, Plant and Equipment written-off	372	372
Product Development cost written-off	2,525	2,525
(Gain)/loss on disposal of quoted or unquoted investments	-	-
(Gain)/loss on disposal of property, plant and equipment	-	-
Impairment of assets	-	-
Impairment of goodwill	3,541	3,541
Loss on foreign exchange	13	16
(Gain)/loss on derivatives	-	-
Exceptional items	-	-

**B13. AUTHORISATION FOR ISSUE**

The interim financial statements were authorized for issue on 25 August 2014 in accordance with resolution of the board of directors.