

EXTOL

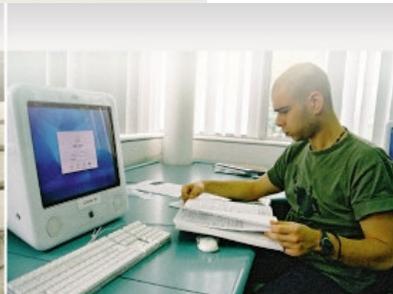
ADVANCING EXCELLENCE

Extol MSC Berhad (643683-U) Annual Report 2007

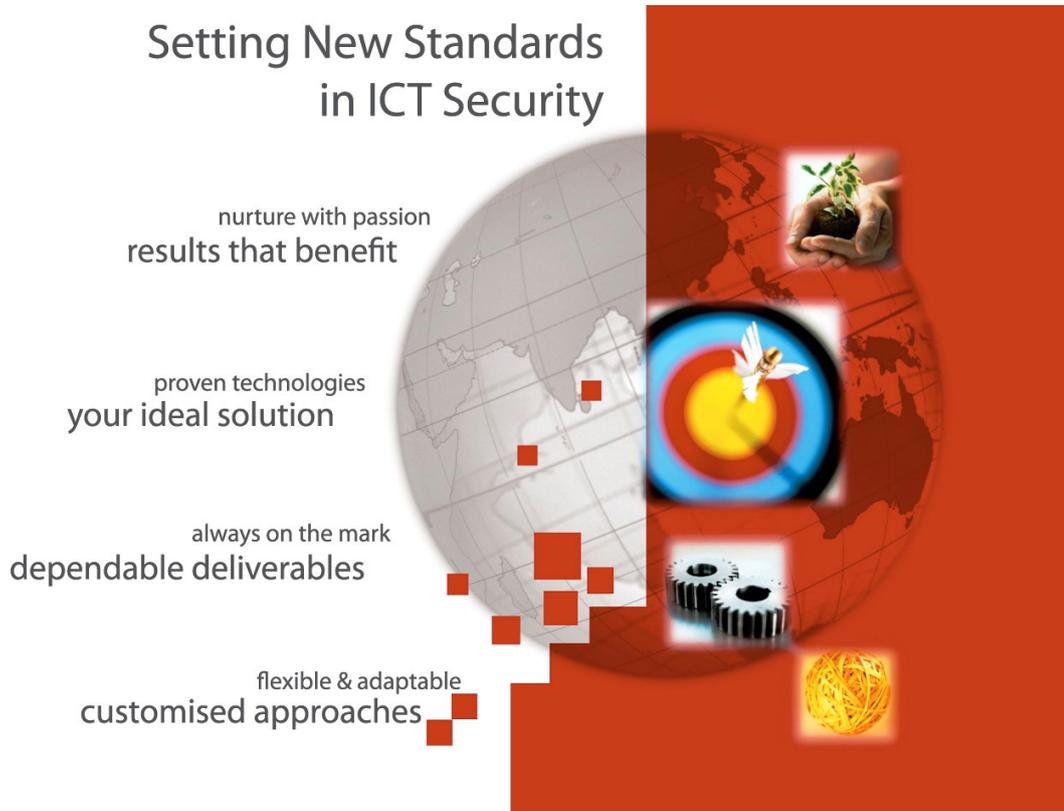
setting new standards in ICT security



Status Company



Corporate Vision and Values



Our vision is to be the most prestigious brand in the Information and Communications Technology (ICT) security field, to be known for our highly secured solutions. We want to be the brand most known for trustworthiness. We want our brand to be built around integrity and trust.

Essentially, we create value by advancing excellence. Not being satisfied with the status quo, we believe that everything we do, we must do it better, otherwise, we will not embark on the journey. We do this by being productively neurotic, passionate about our work and having a bias for action to deliver groundbreaking results.

In the service industry and information age, the most important competitive factor today is information and more importantly, relevant information. To be able to provide our expertise and solutions, we have to continuously strive to acquire knowledge, have an inquisitive attitude in our research and an unequivocal and passionate quest to discover the unknown. It is only through our collective expertise and knowledge that we are able to produce groundbreaking results.

In providing security solutions, the single most important value we can bring to our clients is the trust and integrity of our solutions and expertise. Through our track record, we are then able to extend our assurance and confidence to our clients.

While we must be firm, precise and scientific, we equally have to balance ourselves with the flexibility and adaptability to customize our solutions to the ever changing needs of the market.

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CORPORATE INFORMATION

BOARD OF DIRECTORS	Justin Tan Seng Kooi Chief Executive Officer Lee Choon Kee Executive Director Alex Tan Seng Keng Executive Director Lee Boon Kok Independent Non-Executive Director Mohd Fadzli bin Ibrahim Independent Non-Executive Director
AUDIT COMMITTEE	Lee Boon Kok (Chairman) Independent Non-Executive Director Lee Choon Kee Executive Director Mohd Fadzli bin Ibrahim Independent Non-Executive Director
NOMINATION COMMITTEE	Lee Boon Kok Independent Non-Executive Director Mohd Fadzli bin Ibrahim Independent Non-Executive Director
REMUNERATION COMMITTEE	Mohd Fadzli bin Ibrahim (Chairman) Independent Non-Executive Director Justin Tan Seng Kooi Chief Executive Officer
COMPANY SECRETARIES	Wong Wei Fong (MAICSA 7006751) Lim Lee Kuan (MAICSA 7017753)
REGISTERED OFFICE	Level 14, Uptown 1 No. 1, Jalan SS21/58 Damansara Uptown 47400 Petaling Jaya Selangor Darul Ehsan Tel: (603)7718 6188 Fax: (603)7725 7791
HEAD/MANAGEMENT OFFICE	No. 5-5, Jalan USJ 9/5Q Subang Business Centre 47620 UEP Subang Jaya Selangor Darul Ehsan Tel: (603)8024 8166 Fax: (603)8024 6982 E-mail: info@extolcorp.com
AUDITORS	C. K. Cheah & Co. 24A, Jalan 21/19, Sea Park 46300 Petaling Jaya Selangor Darul Ehsan Tel: (603)7876 6603 Fax: (603)7876 6360
SHARE REGISTRAR	PFA Registration Services Sdn Bhd Level 13, Uptown 1 No.1 Jalan SS21/58 Damansara Uptown 47400 Petaling Jaya Selangor Darul Ehsan Tel: (603)7718 6000 Fax: (603) 7722 2311



SPONSOR	Kenanga Investment Bank Bhd (formerly known as K & N Kenanga Bhd) Suite 17.06, 17 th Floor Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Tel: (603) 2164 6689 Fax: (603) 2164 6690
PRINCIPAL BANKERS	Malayan Banking Berhad HSBC Bank Malaysia Berhad
STOCK EXCHANGE LISTING	MESDAQ Market of Bursa Malaysia Securities Berhad Stock Name: EXTOL Stock code: 0119
CORPORATE WEBSITE	http://www.extolcorp.com

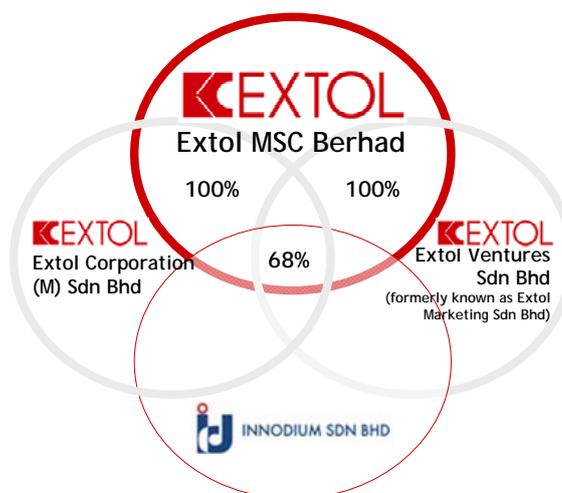
Company Overview

Extol MSC Bhd is a leading ICT security solutions provider offering a comprehensive suite of security solutions to corporations across various industries in Malaysia and beyond. The Company's success lies in the ability to consistently develop industry-leading security solutions that meet the challenges of escalating security threats. From Fraud Detection and Management, Forensics and Incident Response, Anti-Virus Outsourcing and Management, Security Systems Integration, Consultancy Services, Managed Security Services, and Secured Enterprise Applications; organizations depend on Extol MSC Bhd to protect their critical business data and IT infrastructure.

Established in 1984 as a distributor for ICT hardware and software products, Extol Corporation (M) Sdn. Bhd. (a subsidiary of Extol MSC Bhd), evolved in 1992 when it became the first Malaysian company to develop an award winning anti-virus software called Armour. A strategic partnership with Norman DSS (a Norwegian anti-virus software developer) was established for technological exchanges in terms of anti-virus application enhancements.

As part of our business growth and expansion plan, Extol MSC Bhd has identified globalisation as an important agenda to drive the business. This is very much in line with the Government's aspirations to create global Malaysian companies. Responding to global needs and enhancing product value and offerings, the Company has successfully researched and developed neural network/artificial intelligence, threat research, and mobility solutions. These technologies will immediately enhance the Company's product offerings and competitiveness, while laying the future "building blocks" for the Company's future business expansion.

To strengthen our expansion plan into key international markets, Extol MSC Bhd has forged strategic partnerships with global Information Technology leaders; Evidian, Mimosa Systems, Novell, NetContinuum and Nokia. Leveraging on our partner's extensive market reach and superior technologies, Extol MSC Bhd can accelerate its expansion plan in a more structured and cost effective manner. The strategic partnerships will explore business activities such as co-hosting seminars, co-hosting road shows, co-sponsored events, and product bundles that tap into potential opportunities in the Association of Southeast Asian Nations ("ASEAN"), Middle East, China, and Europe regions.



Corporate Milestone

Year 2007 has been a year of awards for Extol

- Extol was awarded the Gold Winner of Business Summit Award.
- Granted the MS ISO 9001:2000 Quality Management Systems and IQ Net Certification by SIRIM.
- A winner in the Deloitte Technology Fast 500 Asia Pacific Award - the region's most comprehensive and respected ranking of fast-growing technology companies. Extol at rank 53 has topped 17 other Malaysian companies.
- Followed by Extol's CEO, Justin Tan, awarded the Technopreneur of the Year in the PIKOM's National ICT Award.

2006

- Extol MSC Bhd achieved ISO27001 2005 Certification.
- Extol MSC Bhd listed on the MESDAQ Market of Bursa Malaysia Securities Bhd.

2005

- Extol Corporation (M) Sdn Bhd awarded the SMI - Maybank Rising Star from SMI Recognition Award Series 2004.

2004

- Extol MSC Bhd granted MSC-status by Multimedia Development Corporation (MDeC).
- Extol MSC Bhd has made its own Managed Security Solutions Services (MSS) operational inclusive of 24x7 remote surveillance systems and a wide-range of security services.

2002

- First to host a Capture the Flag event in Asia.
- Recipient of outstanding sales achievements of Checkpoint internet security solutions.

2001

- Extol Corporation (M) Sdn Bhd launches its comprehensive anti-virus services, CAViS, a first initiative in providing security services.

2000

- Appointed as authorized reseller partner for Symantec, Nokia, Checkpoint, Ubizen, Sun and Hewlett Packard.

1999

- Extol Corporation (M) Sdn Bhd selected as one of the most Strategic 100 IT Companies that matters most to Asia Pacific under MIS Asia 1999.

1998

- Extol Corporation (M) Sdn Bhd listed as one of the MOST Strategic 100 IT Companies that matters most to Asia Pacific under MIS Asia 1998.
- Armour anti-virus selected as the official anti-virus solution for the Kuala Lumpur 98- XVI Commonwealth Games.

1997

- Extol Corporation (M) Sdn Bhd honored with the prestigious IT achievement 'Persatuan Industri Komputer' awarded by PIKOM.
- Extol Corporation (M) Sdn Bhd awarded Top Channel Partner and Top New Channel Partner of supplying Hewlett Packard system by Sapura Systems Malaysia.

1996

- Introduced enterprise-wide license of Armour anti-virus to the U.S Department of Energy through Norman.
- First in Malaysia to introduce security assessment, security policy review and design to Telekom Malaysia Berhad.

1995

- The US Department of Defense purchased 1.5 million units of Armour through our technology partner, Norman.

1994

- Formed strategic alliance with Norman as its technology partner for bi-directional technology transfer of anti-virus solutions.

1993

- Awarded 'Best Reseller' for Trend AV by Trend Microsystems.

1992

- Development of "Armour" anti-virus software.

1989

- Appointed sole distributor for Trend AV.

1984

- Inception of Extol Corporation (M) Sdn Bhd.

Why Extol?

1) Customer Intimacy

Our mission emphasizes on delivering quality and innovative security solutions to meet your customised requirements on ICT security infrastructure.

We strive to provide greater value added propositions in our security solutions. With our international technology partners, and strong associations within the local computer hardware industry, we are capable of providing security solutions in the most effective manner to suit all requirements, without compromising on security features.

2) Unprecedented Support

Our team of engineers provides you with optimum support products and network environments including our own range of managed security services for pre-implementation, implementation, post-implementation and support and maintenance stages of security network services, 24 hours a day, 7 days a week.

3) Comprehensive Solutions

We are your ideal preference and this translates into direct advantages:

- a) Our timely and efficient implementations minus the hassle of incompatibilities.
- b) Your own personal support and maintenance team ensuring standards are met and maintained.
- c) Simple and hassle-free evolution and scalability of your required network through our proven integration capabilities.

4) Dedicated Account Management

A dedicated account manager, just for you, is responsible for monitoring your account and dealing with all aspects of your maintenance contract. This ensures all issues are dealt with expediently. Our focus is a continued and a mutually successful partnership with our customers.

5) Commitment to Standards

In compliance with international standards we are certified with the ISO 27001:2005, the Information Security Management Standard (ISMS) certification, a risk management plan defining the management standard approach to security issues and measures. This certification incorporates the security framework standards set out in ISO17799 and BS7799 and involves setting up proper management corporate governance to monitor and control internal security infrastructure, minimizing business risk and ensuring the security infrastructure continues to fulfil customers' and legal requirement. In Dec 2007, Extol obtained the accreditation from SIRIM, the MS ISO 9001:2000 Quality Management Systems and IQ Net Certification, in areas of software design, development, installation, testing, commissioning, and maintenance, and in Extol's Managed Security Services provisioning as well.

6) Quality Assurance

Our quality assurance is designed with standards and methodology which make us stand out from among our competitors:

- a) Objectivity: implementing all that is necessary to complete your assignment successfully;
- b) Assurance: ensuring your assignment surpasses your expected requirements;
- c) Timeliness: making certain your assignment is completed in stipulated time;
- d) Cost: ensuring your assignment is completed within budget;
- e) People: setting the right people in the right place;

- f) Strategic Partnerships: determining the right business partners to effectively match your assignment's requirements; and
- g) Communication: establishing accurate and appropriate generation and dissemination of your assignment information.

7) Large Customer Track Record

Throughout the years, we take pride in our large customer base. Two thirds of the Malaysian financial institution markets choose us for their peace of mind, protecting networks of up to 20,000 users.

As an innovator with strong local presence and excellent support, we are the integrator of choice for your critical security implementation and incident response, offering meticulous service, satisfaction guaranteed.

Customer benefit is our sole endeavour at Extol MSC Bhd. Our professional expertise is reflected through the depth of experience of our engineers, who promptly and efficiently counsel, manage, maintain and support your security infrastructure:

- a) System Integrity Monitoring
- b) Plan Development
- c) Vulnerability Probe and Assessment
- d) Patch Management
- e) Infrastructure Review
- f) Internet Gateway Management
- g) Threat Profile
- h) Forensics and Incidence Response
- i) Advisory and Consultancy

Corporate Events 2007



On Thursday, 22 March 2007, at Westin Hotel Kuala Lumpur, Extol together with our solution partner Sysware, the distributor for Netcontinuum Web Application Firewall has co-organized a half day event to present the solution and demonstration on “Web Hacking Live Attacks and Defense” to Extol’s clients.

In conjunction with Earth Day which falls on 22 April 2007, Extol MSC Berhad has invited our clients, partners and suppliers to join us @ TGV KLCC, for the screening of “the inconvenient truth”, and for the accreditation of ISMS ISO27001:2005 Certification by SIRIM.



CERTIFIED TO ISO/IEC 27001:2005
CERT NO. : AR 4223



Extol’s participation in Bank Tech Asia '07

BankTech Asia '07 aimed to create a platform to address the concerns of the banking and financial sector in Asia and contribute toward the mitigation of these concerns. BankTech Asia '07 featured a 3-days trade exhibition, a 2-days multi-streamed conference, workshops, product presentation seminars and panel discussion sessions.



Malaysian Minister of International Trade and Industry Y.B Dato’ Rafidah Aziz leads a trade mission to visit three cities in China.

Extol MSC Berhad participated the delegation on business matching to Shanghai, Beijing and Guangzhou from May 24 to May 31, organized by the Malaysia External Trade Development Corporation (Matrade). The Matrade encouraged Malaysian companies to join the mission to explore collaboration opportunities with entities in the three Chinese cities.



Business SUMMIT Award 2007
 Extol MSC Berhad, announced as a Gold Winner for Business SUMMIT Award 2007 by Business Productivity Network on 22 July 2007. This award aims to enhance business success for all industries and enterprises using the "3-in-1" Business Success Recipe": ISO, Branding & Achievement Award.



Deloitte Technology Fast 500 Asia Pacific 2007: Fastest Growing Companies Named, seventeen Malaysia companies are among the fastest growing technology companies in the Asia Pacific region. Extol MSC Berhad is in the top 100, ranked No. 53 with a recorded three-year average revenue growth of 823%, has topped the rest of the participated Malaysian companies. Award presentation was held in Hong Kong, on 6 December 2007.



Work Group Works Seminar 31 July 2007 with Technology partner, Novell.



PIKOM awards outstanding ICT achievers: A total of 10 outstanding Malaysian ICT industry achievers were awarded the **PIKOM National ICT Awards** on Friday, 12 December 2007.

Justin Tan Seng Kooi, CEO of Extol MSC Berhad, bagged home the Technopreneur of the Year Award. The awards were presented by guest of honour, Datuk Dr. Maximus Johnity Ongkili, A Minister in the Prime Minister's Department & Chairman of PIKOM, David Wong Nan Fay.

1

Corporate Social Responsibility



In conjunction with Earth Day which fell on 22 April 2007, Extol organized the screening of the movie “an inconvenient truth” at TGV KLCC, to stir environmental awareness among staff, customers, business partners, and suppliers. Earth Day is the only event celebrated simultaneously around the globe by people of all backgrounds, faiths and nationalities.



“AN INCONVENIENT TRUTH, which offers a passionate and inspirational look at one man’s keen campaign to bring to an end, global warming’s deadly progress in its tracks by exposing the myths and misconceptions that surround it. That man is former Vice President Al Gore.”

To begin, Extol practices energy saving by reducing our electricity consumption. We reduce consumption by switching off room and toilet lights when not in use or after use, keep air-conditioning at comfort level and not at freezing degree, and switching off computers when out of office.

2

TOASTMASTERS International is a world leader in helping people become more competent and comfortable in front of an audience. It is a nonprofit organization and has nearly 220,000 members in 11,300 clubs in 90 countries, offering a proven - and enjoyable! - Way to practice and sharpen communication and leadership skills.

“Extol sponsors the venue for the Toastmasters Club to meet on 1st & 3rd Wednesdays of each month saving the club expenses on meeting room, utilities and facilities renting.”

Participants practice and learn skills by filling a meeting role, ranging from giving a prepared speech or an impromptu one to serving as timer, evaluator or grammarian.

There is no instructor; instead, each speech and meeting is critiqued by a member in a positive manner, focusing on what is done right and what can be improved.

Director's Profile



1. Justin Tan Seng Kooi
36 years of age, Malaysian
Chief Executive Officer

Justin Tan, appointed Chief Executive Officer of Extol MSC Berhad in 2004, has been with the Company since 1995, having worked his way up as a system engineer, technical manager, technical director, to his present position today. Under his visionary leadership, the Company has successfully listed on the MESDAQ Board in March 2006, and granted MSC Status in 2004.

Under his helm, the Company has moved towards focusing on its core competency, ICT Security. With his background in forensics management and information security standards, Justin has led the company towards being a leading ICT security provider with the Managed Security Services.

A graduate of the University of London in BSc (Hon) Electronics and Computer Science, Justin has chaired various local technical working groups such as WG3 (Working Group 3) and is an active force in reviewing assessing, developing and adopting national and international security standards through SIRIM's participation with ISO and IEC international organisations. Justin was the chairman of WG3 under the technical committee (TC5), commissioned by SIRIM to oversee information security in 2003-2004.

Justin has also participated as a key speaker in many international conferences including the Cyberspace Security Seminar in Kuala Lumpur in 2000, the e-Security Conference & Exhibition in Singapore in 2001 and the Hack-In-the-Box Conference in Kuala Lumpur in 2002, where he presented profound and interesting ideas about ICT security, threat profiling and forensic techniques. Justin has chaired and was a speaker in IT Asia Congress 2006 at Jakarta and participate as speaker in ICT conferences; International Conference

on Information Technology & Telecom, ICIT 2006 at Karachi, Pakistan, and PIKOM Software & Services Showcase 2006, sharing his knowledge on "Security Measures to Protect Enterprises Against Fraud and Cyber Terrorism."

In 2007, Justin was awarded the key industry leader by PIKOM & Technopreneur of the year in PIKOM National ICT award. Justin was short listed as one of the top nominee for Ernst & Young Entrepreneur of the Year 2007, under the category Technology Entrepreneur.

His passion for learning and for advancing excellence has led to the establishment of two critical research facilities in Extol MSC Berhad, the Centre for Threat Research and the Centre for Artificial Intelligence (AI) which will enhance the products and services offered.

A man with a strong sense of social responsibility, Justin also incorporates various social concerns to his staff and company. One of his endeavours was to promote awareness of environmental issue by using the film "An Inconvenient Truth" as a community message.

In pursuit of excellence, Justin guides the company to achieve the ISO 27001:2005 Certification in December 2006, and ISO9001:2000 Quality Management System Certification in December 2007, branding the company as one of the better companies for ICT Security. His vision is one day to have this Malaysian company recognized as an ICT Security Provider on a global scale. The expansion plan has begun with the monitoring and surveillance of IT systems for security breaches in various countries in the Asia region.



Justin was appointed to Extol MSC Bhd's Board on 20 December 2005. He is also a member of the Remuneration Committee.

His shareholdings in the Company are disclosed in the List of Directors' Shareholdings on page 72 of this Annual Report and he is a substantial shareholder of the Company.

2. Lee Choon Kee
64 years of age, Malaysian
Executive Director

Lee Choon Kee is the co-founder of Extol Group and the Head of Human Resource and Administration of Extol MSC Bhd. She holds a Master in Business Administration (MBA) from De Montfort University of United Kingdom ("UK").

Madam Lee had more than 25 years of working experience under the Ministry of Health as a radiographer; more than 10 of those years were in a managerial and administrative capacity.

To encourage the staff in the Company to excel and continuously improve themselves, Madam Lee had initiated the Toastmaster Club in Extol - a chapter which she anchors at Extol's headquarters. She holds the Distinguished Toastmaster title, which is the highest achievement of Toastmasters.

Madam Lee was appointed to Extol MSC Bhd's Board on 20 December 2005. She is also a member of the Audit Committee. Her shareholdings in the Company are disclosed in the List of Directors' Shareholdings on page 72 of this Annual Report and she is a substantial shareholder of the Company.



3. Alex Tan Seng Keng
29 years of age, Malaysian
Executive Director

Alex Tan Seng Keng, joined Extol Group in 2000 as a Design Engineer responsible for conducting preliminary research in access control and alarm systems for ICT security.

His area of expertise is in Research and Development of network hardware. Among the products he has designed for the Group are EC*TAG, voice playback card and wireless multiplex boards. Alex is skilled in the development and documentation of design and testing procedures. He set up the standard testing procedures for the hardware designed by the Group's R&D team.

Currently he is heavily involved in the Professional Services Unit through overseeing Security Assessments for clients, participating in the local International Standards Organization (ISO) chapter for IT Security standards development and the research for new ICT threats.

Alex graduated from Bradley University in the US with a degree in Electrical Engineering in 2000, and was on the National Deans List in 1997. He is also a Certified Information Systems Security Professional (CISSP) in good standing with the International Information Systems Security Certification Consortium.

He was appointed to Extol MSC Bhd's Board on 20 December 2005. His shareholdings in the Company are disclosed in the List of Directors' Shareholdings on page 72 of this Annual Report and he is a substantial shareholder of the Company.



4. Lee Boon Kok
44 years of age, Malaysian
Independent Non-Executive Director

Lee Boon Kok is the Independent Non-Executive Director of Extol MSC Bhd. He is currently the Immediate Past Chairman of the Association of the Computer and Multimedia Industry of Malaysia ("PIKOM"). PIKOM is the body representing the ICT industry in Malaysia, whose members control approximately 80% of the total ICT industry in Malaysia.

Mr. Lee graduated from Universiti Kebangsaan Malaysia in 1989 with an honors degree in Computer Science. He started his career as a system engineer and has eighteen (18) years of experience in the ICT industry.

In 1996, as the Professional Service Director of KE Systems Sdn Bhd, he and his senior colleagues successfully completed a management buyout of KE Systems Sdn Bhd from Kumpulan Emas Berhad. He was promoted to the Managing Director of KE Systems Sdn Bhd in 2004. He is also holding the position of Executive Director for KE Technology Sdn Bhd, a wholly own subsidiary of KE Systems and a Oracle certified partner.

Mr. Lee has represented PIKOM in various dialogues with key government agencies and his views are much sought after by policy-makers in Malaysia. He is a member of Technical Resource Group for Enabling Technology for the National Industry Master Plan 3 (IMP3 2005 to 2020). Mr. Lee is an alternate Director of WCIT2008 Sdn Bhd, a joint venture company formed by PIKOM and MDC to undertake the task of organizing the World Congress on Information Technology (WCIT) in Kuala Lumpur in 2008. Often referred to as the Olympics of ICT, WICT2008 is a world class event by World



5. Mohd Fadzli bin Ibrahim
52 years of age, Malaysian
Independent Non-Executive Director

Software and Service Alliance (WITSA), an organization which comprises world leading IT associations from seventy six (76) countries.

Mr. Lee was appointed to Extol MSC Bhd's Board on 20 December 2005. He is also the Chairman of the Audit Committee and a member of the Nomination Committee.

5. Mohd Fadzli bin Ibrahim
52 years of age, Malaysian
Independent Non-Executive Director

Mohd Fadzli bin Ibrahim is an Independent Non-Executive Director of Extol MSC Bhd. He graduated with a Diploma in Banking from Universiti of Technology Mara in 1976 and Bachelor of Business Administration (Finance) from Western Michigan University, US in 1981.

Mohd Fadzli started his career in Bank Negara Malaysia in 1976 as an executive. After he attained his degree, he started working with Malaysian International Merchant Bankers Berhad as an assistant manager in 1982 in the field of corporate finance. Three (3) years later, he was promoted to the position of senior manager in the Corporate/Credit and Marketing department.

Currently, he sits on the board of directors of Early Impression Sdn Bhd specializing in pre-school education and Elite Project Management Sdn Bhd specializing in aviation, homeland security and project consultant.

He was appointed to Extol MSC Bhd's Board on 5 January 2006. He is also the Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Other Information:

1. Conflict of Interest

None of the Directors have any interest in contracts entered into by the Company. Significant related parties transactions in which the Directors have interests have been disclosed in Note 27 to the audited financial statements.

2. Convictions for Offences

None of the Directors have been convicted for any offences for the past 10 years other than traffic offences, if any.

3. Directorship in other public companies

None of the Directors have any directorship in other public company.

4. Family relationships

Save as disclosed below, none of the Directors have any family relationships with any other directors and/or substantial shareholders:-

- a) Justin Tan Seng Kooi and Alex Tan Seng Keng are siblings and Lee Choon Kee is their mother.

Management Discussion

Dear shareholders,

It is my pleasure, on behalf of the Board of Directors, to present this annual report and audited accounts for the financial year ended (“FYE”) 31 December 2007.

The year in review saw intense competition with the entry of new competitors into the information security field. Despite the challenges, the Group was able to meet the ever-changing demands of our customers through new product offerings and value add to our existing offerings.

Financial Performance

The Group recorded revenue of approximately RM13.00 million, representing a decrease of 16.83% as compared to revenue of RM15.63 million for FYE 2006. The decline in revenue can be mainly attributed to the increase in competition in the MSS market segment. MSS division, being the main contributor to the Group’s revenue, registered lower revenue amounting to approximately RM12.699 million for the financial FYE 31 December 2007, a decrease of 16.80% as compared to the revenue of RM15.264 million in the previous FYE 31 December 2006. However, in the second half of FYE 2007, the performance of the MSS division improved due to efforts undertaken by the Group as elaborated in the ensuing paragraphs.

For the FYE 31 December 2007, the Group recorded profit before tax (“PBT”) of RM0.700 million as compared to PBT of RM1.570 million for FYE 31 December 2006. This represents a decrease of approximately 55.41% when compared to the preceding FYE 31 December 2006.

The drop in PBT is mainly due to an increase in operating expenses. For the FYE 31 December 2007, the Group’s operating expenses of approximately RM5.297 million increased by 34.78% from RM3.930 million recorded in the FYE 31 December 2006. The increase in operating expenses for the FYE 31 December 2007 is mainly due to the Group’s increased investment in human capital, branding exercise, overseas marketing expenses, amortization of development costs and depreciation (as a result of the Group stepping up its Research & Development (“R&D”) efforts). The Company had also purchased additional hardware for the purpose of R&D to enhance and improve its products and this has resulted in higher depreciation charges.

Industry Trends, Corporate Developments and Prospects

Under the Ninth Malaysian Plan, several new strategies will be implemented, including the review and enhancement of the MSC Bill of Guarantees, promoting joint R&D between local and foreign ICT entities, extending MSC benefits via the nationwide MSC expansion, and encouraging the production, usage and adoption of domestically-designed and manufactured ICT products and services.

(Source: Ninth Malaysian Plan, 2006-2010, Chapter 5)

PIKOM, the Association of the Computer and Multimedia Industry of Malaysia cited that 2007 has been a moderate year in growth for the ICT industry. Looking ahead, PIKOM foresees 2008 will be another year of fair growth for the ICT sector and will remain at a double digit momentum.

In the software and services sector, the momentum for growth has been consistent and positive. This trend is expected to continue into 2008.

(Article from PIKOM entitled PIKOM’s ICT Outlook for 2008 dated 19 December 2007, <http://www.pikom.org.my/>)

Notwithstanding the implementation of projects under the Ninth Malaysian Plan, the Board of Directors of Extol MSC acknowledges that the Group is facing intense competition in the ICT security market.

As part of its expansion strategy to continuously identify and take on new opportunities that will broaden its income base and enhance its shareholders value, the Group had acquired 68% equity interest in Innodium Sdn Bhd (“Innodium”). Innodium has a matured and tested technology in their desktop management suite of products called Innodesk.

Access to this technology will provide complementary supporting technologies to the Group's current Anti-Virus offerings. Further to the above, the Group may also gain access to existing Innodium markets, which are typically in the Small and Medium Industrial (“SMI”) sector. Innodium's existing track record and marketing resources will allow the Group to market its more value priced solutions to the SMI market.

As a continuing efforts to accelerate its international growth, we had on 13 January 2008 recruited a distribution partner in the Middle East, Benz International Distribution Tech (“Benz”), to market, distribute and resell the Group's products and professional services through resellers of Benz to customers in the Europe, Middle East and Africa (“EMEA”) region (“Distributor Agreement”). We had on the same date, entered into a memorandum of agreement (“MOA”) with Benz to jointly develop and establish a security operations centre to provide a full suite of MSS solutions in the Middle East (“SOC”) (“Proposed Transaction”). The prospective Proposed Transaction would enable Extol to offer its security solutions to corporate and commercial customers in the Middle East.

The MOA, the prospective Proposed Transaction and Distributor Agreement are expected to accelerate the Group's international sales growth and provides the Group with a platform to penetrate the Middle East region. The Group will be able to leverage on Benz's networks in the Middle East region and marketing systems for the distribution of the Group's products.

Through the above efforts, the Group has begun to see results with partners to build market presence in the relevant countries. The essence of establishing a partner network lies in the ability to form win-win partnerships to allow the Group's offering to reach a wider base of audience. With this, the Group can focus on developing new solutions and marketing while partners focus on sales and distribution.

The Group is confident that more overseas business referrals will follow once partners become fully trained to sell and consult on the Group's ICT security solutions.

During the financial year, the Group was honoured by many prestigious awards and industry recognition such as Deloitte's Technology Fast 500 Award; Ernst & Young's Entrepreneur of the Year Award; and Pikom's Entrepreneur of the Year Award (further details of the above awards are set out in the Corporate Events 2007 section on pages 8 and 9).

In pursuit of excellence, the Group achieved the Quality Management System ISO 9001:2000 certification during the financial year, branding us a level higher in terms of its product offerings. With the additional certification, we can better serve our customers. Not stopping with the latest certification, the Group will look to implement additional leading certifications to enhance its competitive position as a top-notch information security solutions provider.

Based on the above prospects, the Group will increase expenditure by stages to create the supporting infrastructure to offer an end-to-end solution. Barring any unforeseen circumstances, the Board expects the financial performance of the Group to improve in the FYE 30 September 2008.

Research and Development

Product development is a key focus of the Group to gain market share as well as widen and improve our product offerings.

To enhance the Group's current Anti-Virus service offerings, Malware Mitigation Maturity Model (“M4”) was developed as a total end-to-end service for medium to large enterprises to effectively manage Malware viruses. Responding to the needs of the market, M4 is well

positioned to spearhead the Anti Virus market segment and bring in additional revenue to the Group.

The Group has also recently developed security centric mobile solutions, like Mobile OTP (One Time Password), which can be used as an alternative to simple usernames and passwords for online authentication; and Mobile Public Key Infrastructure (“Mobile PKI”) for stronger authentication requirements and e-commerce applications.

The Group sees a couple of trends, primarily the convergence of mobility solutions and desktop solutions, secondly, the convergence of e-Security and IT manageability and third the emerging importance in Information Security and Risk Management while IT Security itself is maturing. Therefore, the Group is focusing on key emerging markets and expanding its offerings to include the converging trends. The Group believes that focusing its development on these areas will provide competitive advantage.

In addition to the above new product development, the Group has spent considerable efforts in Artificial Intelligence research and has now developed a new industrial strength neural network called ARTY Algorithm which was originally derived from ARTMAP. The Group is now focusing on developing and packaging the ARTY Algorithm into an appliance box, where other developers can access it through industry open standard protocols like SOA (service-oriented architecture) to build intelligent applications of the future. X-Net has already taken shape in internally developed applications for face detection, fraud detection, and signature verification.

On product development, the Group expects to launch all the new offerings under our MSS, Strong Authentication, and Artificial Intelligence segments to drive the company towards new growth potentials.

Appreciation

On behalf of the board of Directors, I would like to convey my earnest gratitude to our shareholders, management, staff, valued clients and business partners for their commitment, contributions and support over the past year. They have surmounted internal and external challenges to bring the Group to a position of greater strength and opportunity.

JUSTIN TAN SENG KOOI
Chief Executive officer
29 April 2008

Corporate Governance Statement

The Board is committed to ensure that the highest standards of corporate governance are practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group. In this respect, the Board is pleased to present the manner in which it has applied, wherever practical and reasonable, the principles and best practices articulated in the Revised Malaysian Code on Corporate Governance (“the Code”) throughout the year ended 31 December 2007.

A. Directors

1. Composition of Board

The Board consists of five (5) members, comprising three (3) Executive Directors and two (2) Independent Non-Executive Directors. The current Board composition complies with the MESDAQ Market Listing Requirements of the Bursa Malaysia Securities Berhad. A brief profile of each Director is set out on pages 11 and 12 of this Annual Report.

The composition of the Board reflects a balance of the Executive and Non-Executive Directors. The Non-Executive Director contribute significantly in areas such as performance monitoring, allocation of resources as well as improving governance and controls. The Independent Non-Executive Directors fulfil an independent role in corporate accountability through their objective participation in the deliberations of the Board and the exercise of independent judgement.

The Executive Directors are responsible for implementing the policies and decisions of the Board, overseeing the operations as well as coordinating the development and implementation of business and corporate strategies.

The current Board membership is also well represented by individuals with diverse professional backgrounds and experience such as in areas of technology, finance and economics.

The Board is satisfied that the current Board composition fairly reflects the interests of minority shareholders in the Company. The profile of the Board is set out in the Directors' Profile appearing on pages 11 and 12 of the Annual Report.

2. Board Meetings

The Board is primarily responsible for the strategic directions of the Group and meets at least four (4) times a year at quarterly intervals, with additional meetings being convened when necessary.

During the financial year ended 31 December 2007, the Board met five (5) times. The details of the Directors attendance at these Board meetings are set out as follows:

Director	No. of meetings attended
Justin Tan Seng Kooi	5 of 5
Lee Choon Kee	5 of 5
Alex Tan Seng Keng	5 of 5
Lee Boon Kok	5 of 5
Kok We Tian @ Kok Wee Tian (Retired on 22 June 2007)	3 of 3
Mohd Fadzli bin Ibrahim	3 of 5

3. Supply of Information

All Directors have unrestricted access to information in the discharge of their duties and receives regular information updates on the Company's performance to enable them to make informed decisions.

The Board papers which are presented to the Board includes, amongst others, the quarterly and annual financial statements, research reports and operations report, corporate proposal, major operational and financial issues.

For all Board meetings, the notices of meetings and board papers are distributed to the Directors at least seven (7) days in advance prior to Board Meetings to provide Directors with sufficient time to deliberate on issues to be raised at the meetings. All proceedings of the meetings are properly minuted and filed by the Company Secretary.

The Directors also have access to independent professional advice, including the advice of the external auditor, whenever such services are needed to assist them in carrying out their duties. Each Director also has unrestricted access to the advice and services of the Company Secretaries, senior management staff and other external advisers, where necessary.

4. Appointments of Directors

The Nomination Committee recommends to the Board suitable candidates for appointment as Directors and to fill vacant seats on the Board. The Nomination Committee has a formal assessment mechanism in place to assess the effectiveness of the Board and the contribution of each individual director, including the Independent Non-Executive Directors. The performance measurement to assess the Board and the individual Directors' performance are carried out annually by the Nomination Committee.

Further details on the Nomination Committee are set out on page 19 of this Annual Report.

5. Directors Training

All members of the Board have attended the Mandatory Accreditation Program (MAP) pursuant to Bursa Malaysia Securities Berhad guidelines on training for Directors. The Directors have also attended other training programs such as Seminar on Code of Corporate Compliance & Ethical Conduct, Employment Law in Practice and Misconduct & Domestic Inquiry for the financial year. The Directors will continue to participate in other relevant training programs and seminars to keep abreast with the relevant changes in laws and regulations, and the business environment from time to time.

6. Retirement and Re-election of Directors

In accordance with the Company's Articles of Association ("Articles"), all Directors who are appointed by the Board are subject to re-election by shareholders at the first Annual General Meeting ("AGM"). The Articles also provide that one-third (1/3) (or nearest to one-third, if number is not three or multiple of three) of the Directors (including the Managing Director) to retire by rotation at every AGM. All the Directors are subject to retirement at an interval of at least once in every three (3) years.

Directors who are standing for re-election at the Fourth AGM of the Company to be held on 24 June 2008 are detailed in the Notice of the Fourth AGM.

7. Board Committees

The Board has delegated certain responsibilities to its committees which operate within clearly defined terms of reference:

a) Audit Committee

The Board is assisted by an Audit Committee. The composition and terms of reference to the Audit Committee can be found on pages 24 to 27.

b) Nomination Committee

Authority

The Nomination Committee is granted the authority to access and recommend candidates with mix of skills and experience, including core competencies to the Board. The Committee also carries out annual evaluation on the effectiveness and adequacy of balance between the whole Board.

Composition

The members are as follows:

Lee Boon Kok (Member)
Mohd Fadzli bin Ibrahim (Member)

Function and Duties

- (a) To recommend to the Board, the candidates for directorships to be filled by the shareholders or the Board;
- (b) To consider, in making its recommendations, candidates for directorships proposed by the Executive Director and within the bounds of practicability, by any other senior executive(s) or any Director(s) or shareholder;
- (c) To recommend to the Board, the Director(s) to fill the seat(s) on Board Committees;
- (d) To review annually the required mix of skills and experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board; and
- (e) To assess the effectiveness of the Board as a whole, the Committees and the contribution of each individual Director.

c) Remuneration Committee

Authority

The Remuneration Committee is granted the authority to recommend to the Board, the remuneration packages of the Executive Directors. The remuneration packages of Non-Executive Directors should be determined by the Board as a whole.

Composition

The members are as follows:

Mohd Fadzli bin Ibrahim (Chairman)
Justin Tan Seng Kooi (Member)

Function and Duties

- (a) To review the existing level of remuneration of Executive Directors is compatible with their corporate and individual performance;
- (b) To recommend to the Board the remuneration of Executive Directors which is structured to link rewards to corporate and individual performance. Executive Directors should play no part in decisions on their own remuneration;

- (c) In the case of Non-Executive Directors, the level of remuneration shall reflect the experience and level of responsibilities undertaken by the particular Non-Executive Director's concerned. Determination of remuneration packages shall be a matter for the Board as a whole. The individual(s) concerned shall abstain from discussion of their own remuneration; and
- (d) The Company shall establish a formal and transparent procedure on Executive Directors' remuneration and fix the remuneration packages of individual Directors.

B. Directors Remuneration

The remuneration of the Executive Directors is structured so as to link rewards to corporate and individual performance in order to attract, retain and motivate the Executive Directors to run the Group successfully. In the case of the Non-Executive Directors, the level of remuneration reflects the experience, expertise and level of responsibilities undertaken by the particular Non-Executive Director concerned.

The aggregate remuneration of Directors for the financial year ended 31 December 2007 is as follow:

	Directors Fees (RM)	Directors Salaries and Other Emoluments (RM)	Total (RM)
Non-Executive Directors	43,200	8,800	52,000
Executive Directors	18,000	485,040	503,040
Total	61,200	493,840	555,040

The number of directors of the Company whose remuneration fall within the respective band are as follows:

	Executive Director	Non-Executive Director
Below RM50,000	-	3
RM50,000 to RM150,000	2	-
RM200,000 to RM250,000	1	-
Total	3	3

The Directors' fees are approved by the shareholders at the Annual General Meeting.

C. Relationship with Shareholders and Investors

The Group recognises the importance of accurate, effective and timely communication with shareholders and investors to keep them informed on the Group's latest business and corporate developments.

Several channels are used to disseminate information on a timely basis to the investing public:

- the Annual General Meeting is used as the main forum of dialogue for shareholders to raise any issues pertaining to the Company;
- Quarterly announcements and corporate disclosure to Bursa Malaysia Securities Berhad ("Bursa Securities") are available on the website www.bursamalaysia.com;
- Press release provide up-to-date information on the Group's key corporate initiatives and new product and service launches;

- d) The Company's website at www.extolcorp.com provides corporate information on the Group; and
- e) The Group's Corporate Communications Department addresses inquiries from shareholders, investors and the public relating to Company matters.

D. Accountability and Audit

1. Financial Reporting

The Board is responsible for ensuring that the Company maintains accounting records, and financial statements which disclose with reasonable accuracy the financial position of the Group, and that the financial statements comply with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standard Boards. The statement of Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 39 of this Annual Report.

In the preparation of the financial statements, the Directors are of the view that:

- The Group has used appropriate accounting policies that are consistently applied;
- Reasonable and prudent judgments and estimates have been made;
- All applicable approved accounting standards in Malaysia have been followed.

2. Internal Control

The Board acknowledges that it is responsible to set up and maintain an effective system of internal control to safeguard the shareholders' interest and the Group's assets. With this, the Board has ensured that the system of internal control takes into account the process of identifying key risks, likelihood of occurrence and materiality. The Board has also considered the adequacy of internal controls to address these risks.

The Board recognises that risks cannot be eliminated completely. However, with the implementation of a proper system of internal control, the Directors and senior management of the Group aim to provide reasonable assurance against material misstatement, losses and fraud. The Audit Committee assist the Board in discharging the duties in relation to internal control.

3. Relationship with Auditors

Through the Audit Committee, the Company has established a formal and transparent relationship with the Group's external auditors. The Audit Committee meets with external auditors at least once a year to review audit plans and to facilitate exchange of views on issues requiring attention. In addition, audit findings and reports are highlighted to the Audit Committee and the Board.

The Audit Committee takes responsibility to ensure that adequate resources are allocated and provided to the external auditors to carry out their duties according to the annual audit plan. The details of audit / non-audit fees paid / payable to the external auditors are set out below:

2007	Group (RM)	Company (RM)
Audit fees	24,200	11,500
Non-audit fees	2,500	2,500

4. Statement of compliance with the Revised Best Practices of the Code on Corporate Governance (“the Code”)

The Board recognises and subscribes to the importance of the principles and best practices set out in the Code. In this respect, where practical and reasonable, the Board has applied the principles and best practices under the Code.

E. Additional Corporate Information

1. Share Buybacks

The Company did not have a share buy-back plan in place during the financial year ended 31 December 2007.

2. Amount of Option, Warrants or Convertible Securities Exercised during the Financial Year

There were no options, warrants or convertible securities exercised during the financial year ended 31 December 2007.

3. American Depository Receipt (“ADR”) or Global Depository Receipt (GDR”)

The Company did not sponsor any ADR and GDR.

4. Sanction and/or Penalties

There were no sanction and/or penalties imposed on the Company and its subsidiaries, directors or management by the regulatory bodies during the financial year 31 December 2007.

5. Variation of Results

The Company did not issue any profit estimate, forecast or projection for the financial year ended 31 December 2007.

There were no variances of 10% or more between the audited results for the financial year ended 31 December 2007 and the unaudited results previously announced.

6. Profit Guarantee

There were no profit guarantees given by the Company in respect of the financial year ended 31 December 2007.

7. Material Contracts

There were no material contracts entered into by the Group involving directors’ and substantial shareholders interest, either still subsisting, or entered into since the end of the previous financial year.

8. Revaluation of Landed Properties

The Group did not revalue any of its landed properties during the financial year ended 31 December 2007.

9. Corporate Social Responsibility Activities or Practices

The Corporate Social Responsibility report is set out on page 10 of this Annual Report.

10. Recurrent Related Party Transactions (“RRPT”) of revenue nature

There were no RRPT of revenue nature entered into by the Group during the financial year ended 31 December 2007.

11. Status of Utilisation of Proceeds

R&D will continue to play a key role in the Group’s sustained growth objectives. During the FYE 31 December 2007, the Group utilized RM1.058 million from the proceeds of the initial public offering for R&D activities, as part of the Group’s continuing efforts in developing new products and updated versions of existing products with enhanced features to meet changing customers’ needs.

Audit Committee Report

Member

The Audit committee was established on 5 January 2006. The present members of the Audit Committee and their respective designations are as follows:

Chairman

Lee Boon Kok

Independent Non-Executive Director

Members

Mohd Fadzli bin Ibrahim

Independent Non-Executive Director

Lee Choon Kee

Executive Director

(Appointed with effect from 24 August 2007)

Kok We Tian @ Kok Wee Tian

Non-Independent Non-Executive Director

(Retired on 22 June 2007)



Terms of Reference of Audit Committee

1. Composition of the Audit Committee

The Audit Committee shall be appointed by the Board from amongst their numbers, which fulfils the following requirements:-

- (1) The Audit Committee must be composed of no fewer than 3 members, which the majority of whom are independent directors. In the event of any vacancy in the Audit Committee resulting in the non-compliance of the above, the Company must fill the vacancy within 3 months.
- (2) All the Audit Committee members must be financially literate, with at least one member:-
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by the Exchange.
- (3) No alternate director shall be appointed as a member of the Audit Committee.
- (4) The member of the Audit Committee shall elect a Chairman from among themselves who shall be an Independent Director. The Chairman of the Audit Committee should engage on a continuous basis with senior management, the head of internal audit and the external auditors in order to be kept informed of matters affecting the company.

All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of the Company. The Board must review the term of office

and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee has carried out its duties in accordance with its terms of reference.

2. Secretary of the Audit Committee

The Company Secretaries of the Company shall be the Secretaries of the Audit Committee.

3. Duties and Responsibilities of the Audit Committee

The following are the main duties and responsibilities of the Audit Committee collectively:

- (1) Review the following and report the same to the Board of the Company:-
 - (i) with the external auditors, the audit plan;
 - (ii) with the external auditors, his evaluation of the system of internal controls;
 - (iii) with the external auditors, his audit report;
 - (iv) the assistance given by the employees of the Company to the external auditors and the internal auditors;
 - (v) the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - (vi) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - (vii) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:-
 - (a) changes in or implementation of major accounting policy changes;
 - (b) significant and unusual events; and
 - (c) compliance with accounting standards and other legal requirements;
 - (viii) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - (ix) any letter of resignation from the external auditors and any questions of resignation or dismissal; and
 - (x) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment;
- (2) Oversee the Company's internal control structure to ensure operational effectiveness and efficiency, reduce risk of inaccurate financial reporting, protect the Company's assets from misappropriation and encourage legal and regulatory compliance;

- (3) Assist the Board in identifying the principal risks in the achievement of the Company's objectives and ensuring the implementation of appropriate systems to manage these risks;
- (4) Recommend to the Board on the appointment and re-appointment of the external auditors and their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of the audit;
- (5) Discuss with the external auditors before the audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- (6) Discuss problems and reservations arising from the audits and any matter the auditors may wish to discuss in the absence of the management where necessary;
- (7) Review the external auditor's management letter and management's response therein;
- (8) In relation to the internal audit function:-
 - (i) review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (ii) review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - (iii) review any appraisal or assessment of the performance of members of the internal audit function;
 - (iv) approve any appointment or termination of senior staff members of the internal audit function; and
 - (v) take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (9) Consider the major findings of internal investigations and management's response; and
- (10) Consider other matters as defined by the Board.

4. Rights of the Audit Committee

In carrying out its duties and responsibilities, the Audit Committee will:

- have the authority to investigate any matter within its terms of reference;
- have the resources which are required to perform its duties;
- have full and unrestricted access to any information pertaining to the Company;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- be able to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend the Audit Committee meetings (if required) and to brief the Audit Committee; and

- be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary.

5. Conduct of Meetings

- (1) The Audit Committee will meet at least four (4) times in each financial year although additional meetings may be called at any time, at the discretion of the Chairman of the Audit Committee.
- (2) The quorum shall consist of a majority of Independent committee members and shall not be less than two.
- (3) Recommendations to the Audit Committee are submitted to the Board for approval.
- (4) The Company Secretaries shall be in attendance at each Audit Committee meeting and record the proceedings of the meeting thereat.
- (5) Minutes of each meeting shall be kept as part of the statutory record of the Company upon confirmation by the Board and a copy shall be distributed to each member of the Audit Committee.
- (6) The Managing Director and other appropriate officer may be invited to attend where their presence are considered appropriate as determined by the Audit Committee Chairman.
- (7) The internal auditors and/or external auditors have the right to appear and be heard at any meeting of the Audit Committee and are recommended to attend each Audit Committee meeting.
- (8) Upon the request of the internal auditors and/or external auditors, the Audit Committee Chairman shall also convene a meeting of the Audit Committee to consider any matter the auditor(s) believes should be brought to the attention of the Board or the shareholders.
- (9) The Audit Committee must be able to convene meetings with external auditors without the presence of the executive board members and management at least twice a year and whenever deemed necessary.
- (10) Where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of Bursa Malaysia Securities Berhad requirements, the Audit Committee must promptly report such matter to Bursa Malaysia Securities Berhad.
- (11) The attendance of any particular Audit Committee meeting by other directors and employees of the Company shall be at the Audit Committee's invitation and discretion and must be specific to the relevant meeting.

Summary of Activities Undertaken

The activities of the Committee for the FYE 2007 include, inter alia, the following:

Internal Audit

- Reviewed the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- Reviewed and discussed the internal audit reports and ensure that corrective actions had been taken to rectify the weaknesses highlighted in the audit reports.

Financial Reporting

Reviewed the quarterly and year end financial statements and ensure that the financial reporting and disclosure requirements of relevant authorities had been complied with, focusing particularly on:-

- any change in or implementation of accounting policies and practices;
- significant adjustments arising from the audit;
- the going concern assumption;
- major judgmental issues;
- significant and unusual events; and
- compliance with accounting standards and other regulatory requirements.

External Audit

- Reviewed the audit planning memorandum for the financial year ending 31 December 2007.
- Reviewed the annual audited financial statement of the Group with the external auditors prior to submission to the Board for approval;
- Reviewed and discussed the observations, recommendations and the management's comments in respect of the issues raised by the external auditors on their evaluation of the system of internal controls.

Related Party Transaction

- Reviewed the related party transactions and conflict of interest situation that may arise within the company or group including any transactions, procedures or course of conduct that raises questions of management integrity.

Other Matters

- Reviewed the Corporate Governance Statement.

Meetings

During the financial year ended 31 December 2007, four (4) meetings were convened, with details on the attendance of the Directors listed below:

Name of Committee Member	No. of meetings attended
Lee Boon Kok	4 of 4
Mohd Fadzli bin Ibrahim	3 of 4
Lee Choon Kee (Appointed with effect from 24 August 2007)	1 of 1
Kok We Tian @ Kok Wee Tian (Retired on 22 June 2007)	3 of 3

Internal Audit Function

The Board recognizes the importance of the internal audit function and the independent status required for it to carry out the job effectively. During the financial year ended 31 December 2007, the internal audit function in respect to the accounting system was outsourced to CAS Consulting Services Sdn. Bhd. And the internal audit function for the operations was performed by Quality Assurance and Audit department (QA) of the Group. The Internal QA team introduced risk based auditing approach with risk focused audit program in order to ensure that the principal risks were being identified and mapped with the existing system of internal control. The outsourcing of the audit functions in respect to the Group's accounting system was carried out stringently whereby results of accounting were properly maintained. As an ISO27001:2005 certified organization towards Information Security Management Systems (ISMS), the audit functions are to ensure that the controls and objectives of the standards are adhered to, maintained and followed. The audit plans that have been prepared at the beginning of the year were followed accordingly and areas of improvement were highlighted in the audit reports and discussed during the Management Review meetings together with the Audit Committee. By being certified towards ISO9001:2000, Quality Management Systems (QMS) the organization was able to handle project management in a professional and structured way resulting in customer's confidence.

The Group has incurred a total amount of RM11,000 for the internal audit function for the FYE 31 December 2007.

The Board had via the Audit Committee have evaluated the effectiveness of the outsourcer and QA by reviewing the results of its work in Audit Committee meetings.

Statement by the Audit Committee in relation to ESOS allocation

The Group has obtained approval for an Employee Share Option Scheme ("ESOS") in conjunction with the Initial Public Offer approval up to 10% of the issued and paid-up share capital of the Company. As at the date of this report, no ESOS options have been granted.

Statement on Internal Control

The Board of Directors is committed to maintain a sound system of internal control of the Group to safeguard the shareholders' investment and the Group's assets. The Board is pleased to provide the following statement which outlines the nature and scope of internal control of the Group during the financial year.

Responsibility of the Board

The Board recognises the importance of a sound system of internal control for good corporate governance and acknowledges its primary responsibility to ensure that principal risks in the Group are identified, measured and managed with appropriate system of internal controls, and to ensure that the effectiveness, adequacy and integrity of the internal control systems are reviewed on an ongoing basis. The system of internal control covers *inter-alia*, governance, risk management, financial, organisational, operational and compliance control. The Board also acknowledges that a sound system of internal controls reduces, but cannot eliminate, the possibility of poor judgement in decision-making; human error; breakdown in internal control due to collusion; control processes being deliberately circumvented by employees and others; management overriding controls and occurrence of unforeseeable circumstances. A sound system of internal control therefore provides reasonable, but not absolute, assurance that the Group will not be hindered in achieving its business objectives.

The Board recognizes that the system needs to be continuously improved to support the type of business and size of the Group's operations. Such a system is concerted and continues the process for identifying, evaluating and managing significant risks faced by the Group.

Extol's Policies on Risk Management

Extol Group is a one-stop Information and Communications Technology ("ICT") security solutions provider offering a comprehensive spectrum of ICT security products and services to counter ICT security threats.

The Board confirms that an ongoing process for identifying, measuring and managing the Group's principal risks has been operated throughout the year under review. This process is reviewed by the Audit Committee whose main role is to review, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, and to present its findings to the Board. The Audit Committee is supported by the Group's internal audit function in carrying out its roles and responsibilities. To ensure that risks are managed effectively, risk-based-auditing approach which begins with risk identification, risk evaluation and mapping of controls has been introduced and implemented.

The Group's risk management procedure enables all information and associated assets, such as information processing equipments and facilities, to undergo risk assessment on an annual basis and as and when there is an urgent need. A risk that can be reduced, transferred, or avoided is considered as acceptable level of risk. The management decides on the criteria for risk acceptance. Extol selects appropriate control objectives from the ISO 27001 standard and work to mitigate the risks to residual level through the process of:

- Identifying the threats,
- Identifying the vulnerabilities
- Determining the probability
- Determining the impact
- Selecting appropriate controls from the ISO 27001 standard

As all employees are required to sign a Non-Disclosure Agreement (NDA) during their service in the organization to ensure the Confidentiality, Integrity and Availability (CIA) of valuable and private information and a high level of security and risk management is maintained at Group level. All employees know exactly what is expected of them not only in deliverables but also in the quality of the deliverables.

Key Elements of Internal Control

The key elements of the Group's internal control system that are regularly reviewed by the Board are as follows:

- Establishment of a conducive control environment in respect of the overall attitude, awareness and actions of Directors and management regarding the internal control system and its importance to the Group;
- Recruitment of experienced, skilled and professional staff with the necessary calibre to fulfill the respective responsibilities and ensuring that minimum controls are put in place;
- Clear Group structure, reporting lines of responsibilities and appropriate levels of delegation;
- Documented policies, procedures and limits of approving authorities for key aspects of the businesses. This provides a sound framework of authority and accountability within the organisation and facilitates proper corporate decision-making at the appropriate level in the organisation's hierarchy;
- Establishment of proper set of checklists to facilitate proper business proposal evaluation;
- Establishment of an effective segregation of duties via independent checks, review and reconciliation activities to prevent human errors, fraud and abuses;
- Regular management reports to the Board on key business performance, operating statistics and regular matters. This enables effective monitoring of significant variances and deviation from standard operating procedures and budget;
- The Group has outsourced the internal audit services for the financial portion whereas the rest of the process is being handled by the QA department. The internal audit functions independently reviews the risk identification procedures and control processes implemented by the management, and reports to the Audit Committee during the Audit Committee meetings. The internal audit functions provides assurance over the operation and validity of the system of internal control in relation to the level of risk involved using risk-based-auditing methodology;
- The Audit Committee regularly convenes meetings to deliberate on the findings and recommendations for improvement by internal audit function, external auditors as well as regulatory authorities. The Audit Committee reviews the actions taken to rectify the findings in a timely manner, and to evaluate the effectiveness and adequacy of the Group's internal control systems;
- Monitoring of the compliance of the Group's Standard Operations Procedure and adherence to the Group's policy by the Quality Assurance Department resulting in the Group's services exceeding customer needs and its being ISO 27001:2005 and ISO 9001:2000 certified;
- Policies and procedures are documented based on the guidelines of the Information Security Management System or the ISO27001:2005 and is monitored by the Quality Assurance Department;

- By its being certified towards ISO9001:2000, Quality Management Systems (QMS) the organization is able to handle project management in a professional and structured way resulting in customer's confidence; and
- Progress meetings are conducted regularly with heads of departments to address weaknesses and to improve efficiency and productivity.

The Board believes that the systems of internal controls in the Group are adequate and have been effective in their functions, with no significant breakdown or weaknesses in the system of internal control noted during the period under review.

Moving forward, the Group will continue to improve and enhance the existing systems of internal controls, taking into consideration the changing business environment.

The Group's statement of internal controls has been reviewed by the Company's external auditors.



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EXTOL MSC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company and of the Group for the year ended 31st December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year are to carry out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings. The principal activities of the subsidiary companies are stated in Note 7 of the notes to the financial statements. There have been no significant changes in the nature of these activities during the year.

RESULTS FOR THE FINANCIAL YEAR

	COMPANY RM	GROUP RM
Profit before taxation	267,963	699,843
Taxation	-	(92,012)
Profit after taxation	<u>267,963</u>	<u>607,831</u>
Attributable to:		
Equity holders of the company	267,963	564,660
Minority interest	-	43,171
	<u>267,963</u>	<u>607,831</u>

No transfer has been made to or from any reserve or provision.

No amount has been paid or recommended to be paid by way of dividend since the end of the last financial year.

In the opinion of the directors the results of the Company and of the Group during the year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIRECTORS

The directors in office at the date of this report are:-

JUSTIN TAN SENG KOOI
ALEX TAN SENG KENG
LEE CHOON KEE
LEE BOON KOK
MOHD FADZLI BIN IBRAHIM

EXTOL MSC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

DIRECTORS' BENEFITS

Since the end of the last financial year, no director has received or has become entitled to receive a benefit (other than those disclosed as directors' fees and emoluments in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object was to enable the directors to acquire benefits through the acquisition of shares or debentures in the Company or any other body corporate.

DIRECTORS' INTERESTS

The directors holding office at the end of the financial year and their interest in the issued share capital of the Company during the year according to the register of directors' shareholdings were as follows:-

	Number of shares of RM0.10 each			As at 31.12.2007
	As at 01.01.2007	Bought	Sold	
<u>Direct</u>				
JUSTIN TAN SENG KOOI	30,548,000	-	(2,888,200)	27,659,800
ALEX TAN SENG KENG	17,410,000	-	(6,030,400)	11,379,600
LEE CHOON KEE	15,440,000	1,100,000	(4,860,400)	11,679,600
LEE BOON KOK	-	-	-	-
MOHD FADZLI BIN IBRAHIM	-	-	-	-
KOK WE TIAN @ KOK WEE TIAN (Retired on 22.06.2007)	501,000	-	-	501,000
CLAIRMONT KOK HSIAO KATE (Alternate to KOK WE TIAN @ KOK WEE TIAN) (Ceased on 22.06.2007)	-	-	-	-

EXTOL MSC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

	Number of shares of RM0.10 each			As at 31.12.2007
	As at 01.01.2007	Bought	Sold	
<u>Indirect</u>				
JUSTIN TAN SENG KOOI	32,850,000	4,019,900	(1,100,000)	35,769,900
ALEX TAN SENG KENG	45,988,000	6,062,100	-	52,050,100
LEE CHOON KEE	47,958,000	4,892,100	(1,100,000)	51,750,100
LEE BOON KOK	-	-	-	-
MOHD FADZLI BIN IBRAHIM	-	-	-	-
KOK WE TIAN @ KOK WEE TIAN (Retired on 22.06.2007)	3,998,900	-	(427,100)	3,571,800
CLAIRMONT KOK HSIAO KATE (Alternate to KOK WE TIAN @ KOK WEE TIAN) (Ceased on 22.06.2007)	4,499,900	-	(427,100)	4,072,800

OTHER STATUTORY INFORMATION

- a.) Before the income statements and balance sheets of the Company and of the Group were made out, the directors took reasonable steps:-
- (i) to ascertain that action has been taken in regard to the writing off and providing for bad and doubtful debts and have satisfied themselves that all known bad debts have been written off and that provision for doubtful debts are not necessary; and
 - (ii) to ensure that any current assets which are unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values.
- b.) At the date of this report, the directors advise that they are not aware of any circumstances which would render:
- (i) the amount written off for bad debts inadequate to any substantial extent or it necessary to make a provision for doubtful debts in respect of these financial statements; and
 - (ii) the values attributable to current assets in the financial statements misleading.
- c.) In their opinion, no item, transaction or event of a material and unusual nature has arisen which would affect substantially the results of the operations of the Company and of the Group for the financial year in which this report is made.

EXTOL MSC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

d.) In the opinion of the Directors: -

- (i) there are no contingent liabilities of the Company and of the Group which have arisen since the end of the financial year.
- (ii) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Company and of the Group to meet its obligations as and when they fall due.

e.) As at the date of this report:-

- (i) there are no charges on the assets of the Company and of the Group which have arisen since the end of the financial year to secure the liabilities of any other person, or
- (ii) the directors are not aware of any circumstances not otherwise dealt with in the report or financial statements of the Company and of the Group which would render any amount stated in the financial statements misleading.

PROCEEDS OF PUBLIC ISSUE

The gross proceeds from the Public Issue of 26,100,000 shares in financial year ended 31st December 2006 amounting to RM7,830,000 were proposed to be utilised as follows:

	RM
Research and development	3,066,000
Business expansion	1,917,000
Working capital	1,247,000
Listing expenses	1,600,000
	<hr/>
	7,830,000
	<hr/>

As at 31st December 2007, all the proceeds were utilised in the manner as proposed except for an unutilised balance of RM1,221,271 in relation to:

	RM
Research and development	829,672
Business expansion	149,599
Working capital	242,000
	<hr/>
	1,221,271
	<hr/> <hr/>

EXTOL MSC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

AUDITORS

The auditors, Messrs C. K. Cheah & Co., Chartered Accountants, have expressed their willingness to accept re-appointment.

By Resolution of the Board

JUSTIN TAN SENG KOOI
DIRECTOR

LEE CHOON KEE
DIRECTOR

PETALING JAYA

EXTOL MSC BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, JUSTIN TAN SENG KOOI and LEE CHOON KEE, being two of the directors of EXTOL MSC BERHAD do hereby state on behalf of the directors that in our opinion, the financial statements as set out on pages 41 to 71 are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2007 and of the results of the operations of the Company and of the Group and of the cash flows of the Company and of the Group for the year ended on that date.

On behalf of the Directors

JUSTIN TAN SENG KOOI
DIRECTOR

LEE CHOON KEE
DIRECTOR

Petaling Jaya
Dated:

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, Ng Choo Kit, being the officer primarily responsible for the accounting records and financial management of EXTOL MSC BERHAD do solemnly and sincerely declare that the financial statements as set out on pages 41 to 71 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
NG CHOO KIT)
I/C No. 660908-06-5394)
at Petaling Jaya)
in the state of Selangor Darul Ehsan on)
this)

Before me

**AUDITORS' REPORT TO MEMBERS OF
EXTOL MSC BERHAD**
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 41 to 71 of EXTOL MSC BERHAD.

The financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Malaysian Accounting Standard Board approved accounting standards for Entities Other than Private Entities in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company and of the Group; and
 - (ii) the state of affairs of the Company and of the Group as at 31st December 2007 and of the results of the operations of the Company and of the Group and of the cash flows of the Company and of the Group for the year ended on that date; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports of INNODIUM SDN. BHD. of which we have not acted as the auditors, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

C. K. CHEAH & CO.
AF: 0434
CHARTERED ACCOUNTANTS (MALAYSIA)
Dated:

CHEAH CHOONG KEONG
1108/5/08(J)
CHARTERED ACCOUNTANT

EXTOL MSC BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31ST DECEMBER 2007

	Notes	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
NON-CURRENT ASSETS					
Property, plant and equipment	4	5,089,233	5,354,881	265,392	339,701
Prepaid lease assets	5	984,225	-	-	-
Goodwill	6	3,510,211	2,026,255	-	-
Interest in subsidiary companies	7	-	-	12,540,831	12,550,161
Product development expenditure	8	4,870,199	4,323,572	3,453,260	2,683,902
		14,453,868	11,704,708	16,259,483	15,573,764
CURRENT ASSETS					
Stocks		1,160	64,660	-	-
Trade receivables	9	6,492,950	7,548,749	804,350	1,551,160
Other receivables	10	125,162	382,666	13,212	31,617
Tax recoverable		57,919	84,154	5,852	-
Short term investment	11	854,969	1,038,928	854,969	1,038,928
Fixed deposits with licensed banks	12	1,468,823	2,527,068	-	-
Cash and bank balances		1,890,260	67,812	450,244	16,081
		10,891,243	11,714,037	2,128,627	2,637,786
TOTAL ASSETS		25,345,111	23,418,745	18,388,110	18,211,550
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	13	10,440,000	10,440,000	10,440,000	10,440,000
Share premium	14	3,620,000	3,620,000	3,620,000	3,620,000
Profit and loss account		4,893,741	4,329,081	4,105,084	3,837,121
Equity attributable to equity holders of the parent		18,953,741	18,389,081	18,165,084	17,897,121
Minority interest		144,839	-	-	-
		19,098,580	18,389,081	18,165,084	17,897,121
NON-CURRENT LIABILITIES					
Borrowings	15	1,336,031	687,773	106,662	146,664
Deferred tax liabilities	16	878,041	848,015	-	-
		2,214,072	1,535,788	106,662	146,664
CURRENT LIABILITIES					
Borrowings	15	1,203,658	2,087,405	40,002	40,002
Trade payables	17	2,631,274	1,065,522	5,000	6,500
Other payables	18	197,527	325,837	71,362	106,151
Provision for taxation		-	15,112	-	15,112
		4,032,459	3,493,876	116,364	167,765
TOTAL LIABILITIES		6,246,531	5,029,664	223,026	314,429
TOTAL EQUITY AND LIABILITIES		25,345,111	23,418,745	18,388,110	18,211,550

The notes on pages 45 to 71 form an integral part of the financial statements.

EXTOL MSC BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2007

	Notes	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
TURNOVER	19	13,000,879	15,630,781	2,806,252	2,626,745
COST OF SALES		<u>(7,192,380)</u>	<u>(10,196,313)</u>	<u>(1,076,830)</u>	<u>(395,248)</u>
GROSS PROFIT		5,808,499	5,434,468	1,729,422	2,231,497
Other operating income		246,646	234,531	66,428	94,486
Administration expenses		(3,243,168)	(2,123,265)	(907,585)	(615,138)
Selling and distribution expenses		(32,807)	(359,100)	(4,372)	(36,255)
Other operating expenses		<u>(2,005,466)</u>	<u>(1,447,943)</u>	<u>(610,788)</u>	<u>(403,800)</u>
PROFIT FROM OPERATIONS		773,704	1,738,691	273,105	1,270,790
Finance expenses	20	<u>(73,861)</u>	<u>(167,977)</u>	<u>(5,142)</u>	<u>(1,714)</u>
PROFIT BEFORE TAXATION	21	699,843	1,570,714	267,963	1,269,076
TAXATION	23	<u>(92,012)</u>	<u>(113,143)</u>	<u>-</u>	<u>(15,112)</u>
PROFIT AFTER TAXATION		<u>607,831</u>	<u>1,457,571</u>	<u>267,963</u>	<u>1,253,964</u>
ATTRIBUTABLE TO:					
Equity holders of the parent		564,660	1,457,571		
Minority interest		<u>43,171</u>	<u>-</u>		
		<u>607,831</u>	<u>1,457,571</u>		
Earnings per share (sen)					
- basic	24	<u>0.54</u>	<u>1.46</u>	<u>0.26</u>	<u>1.26</u>

The notes on pages 45 to 71 form an integral part of the financial statements.

EXTOL MSC BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2007

	← The Group →						← The Company →			
	Share capital	Share premium	Unappropriated profit	Total	Minority interests	Total equity	Share capital	Share premium	Unappropriated profit	Total
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
As at 01.01.2006	7,830,000	-	3,706,710	11,536,710	-	11,536,710	7,830,000	-	3,418,357	11,248,357
Issuance of shares	2,610,000	5,220,000	-	7,830,000	-	7,830,000	2,610,000	5,220,000	-	7,830,000
Listing expenses	-	(1,600,000)	-	(1,600,000)	-	(1,600,000)	-	(1,600,000)	-	(1,600,000)
Interim tax exempt dividend of 8%	-	-	(835,200)	(835,200)	-	(835,200)	-	-	(835,200)	(835,200)
Profit after taxation	-	-	1,457,571	1,457,571	-	1,457,571	-	-	1,253,964	1,253,964
As at 31.12.2006	10,440,000	3,620,000	4,329,081	18,389,081	-	18,389,081	10,440,000	3,620,000	3,837,121	17,897,121
Acquisition of subsidiary company from minority interests	-	-	-	-	101,668	101,668	-	-	-	-
Profit after taxation	-	-	564,660	564,660	43,171	607,831	-	-	267,963	267,963
As at 31.12.2007	10,440,000	3,620,000	4,893,741	18,953,741	144,839	19,098,580	10,440,000	3,620,000	4,105,084	18,165,084



EXTOL MSC BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2007

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before taxation	699,843	1,570,714	267,963	1,269,076
Adjustments for :				
Amortization of prepaid lease assets	20,940	-	-	-
Amortization of product development expenditure	511,171	378,186	288,440	155,454
Depreciation of property, plant and equipment	901,403	735,026	75,769	77,763
Interest income	(108,887)	(121,554)	(66,428)	(94,486)
Interest expenses	73,861	167,977	5,142	1,714
Property, plant and equipment written off	34,123	-	-	-
	1,432,611	1,159,635	302,923	140,445
Operating profit before working capital changes	2,132,454	2,730,349	570,886	1,409,521
Decrease in stocks	63,500	11,340	-	-
Decrease/(Increase) in receivables	1,504,741	(2,272,129)	822,044	(4,212,811)
Increase/(Decrease) in payables	864,009	81,960	(83,789)	(361,965)
	2,432,250	(2,178,829)	738,255	(4,574,776)
Cash generated from/(used in) operations	4,564,704	551,520	1,309,141	(3,165,255)
Bank overdraft interest	(3,066)	(25,209)	-	-
Bills payable interest	(13,267)	(94,835)	-	-
Taxation paid	(50,863)	(135)	(20,963)	-
Net cash generated from/(used in) operating activities	4,497,508	431,341	1,288,178	(3,165,255)
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of subsidiary companies (Note 25)	(1,547,979)	-	-	-
Interest received	108,887	121,554	66,428	94,486
Purchase of prepaid lease assets	(1,005,165)	-	-	-
Purchase of property, plant and equipment	(663,192)	(1,517,443)	(1,460)	(99,492)
Product development expenditure	(1,057,798)	(1,329,857)	(1,057,798)	(1,329,857)
Net cash used in investing activities	(4,165,247)	(2,725,746)	(992,830)	(1,334,863)
	332,261	(2,294,405)	295,348	(4,500,118)
CASH FLOW FROM FINANCING ACTIVITIES				
Drawn down of lease facility	1,005,165	-	-	-
Drawn down of term loan	351,690	71,142	-	-
Lease and hire purchase interest paid	(9,734)	(3,694)	(5,142)	(1,714)
Payment to lease and hire purchase creditors	(69,692)	(28,334)	(40,002)	(13,334)
Payment of dividend	-	(835,200)	-	(835,200)
Proceeds from issuance of shares	-	6,230,000	-	6,230,000
Term loan interest paid	(47,794)	(44,239)	-	-
Repayment of term loans	(411,116)	(151,275)	-	-
Net cash generated from/(used in) financing activities	818,519	5,238,400	(45,144)	5,379,752
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,150,780	2,943,995	250,204	879,634
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,063,272	119,277	1,055,009	175,375
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 26)	4,214,052	3,063,272	1,305,213	1,055,009

The notes on pages 45 to 71 form an integral part of the financial statements.

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

1. GENERAL INFORMATION

The principal activities of the Company during the year are to carry out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings. The principal activities of the subsidiary companies are stated in Note 7 of the notes to the financial statements. There have been no significant changes in the nature of these activities during the year.

The Company is a public listed company incorporated and domiciled in Malaysia and quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The address of the registered office of the Company is as follows:

Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

The address of the principal place of business of the Company is as follows:

No. 5-5, Jalan USJ 9/5Q
Subang Business Centre
47620 Subang Jaya
Selangor Darul Ehsan

2. BASIS OF PREPARATION

The financial statements of the Company and of the Group have been prepared under the historical cost convention and the Malaysian's Financial Reporting Standards (FRS) for Entities Other than Private Entities issued by Malaysian Accounting Standards Board.

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency. All financial information presented in RM has been rendered to nearest RM, unless otherwise stated.

The preparation of financial statements of the Group and of the Company requires management to make assumptions, estimates and judgements that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Assumptions and estimates are reviewed on an ongoing basis and recognised in the period in which the assumption or estimate is revised.

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered to be material in relation to the financial statements.

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year. Subsidiary companies are companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of are included in the consolidated income statement from the date of acquisition or up to the date of disposal. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary companies acquired, the difference is recognised directly in the income statement.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Intragroup transactions, balances and unrealised gains on transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Where necessary, adjustments are made to the financial statements of subsidiary companies to ensure consistency of accounting policies with those of the Group.

Minority interests represent the portion of profit or loss and net assets in subsidiary companies not held by the Group. It is measured at the minority interests' share of the fair value of net assets at the acquisition date and the minorities' share of changes in the equity since then.

The consolidated financial statements are prepared on the basis that excess of losses attributable to minority shareholders over their equity interest will be absorbed by the Group. All profits subsequently reported by the subsidiary companies will be allocated to the Group until the minority shareholders' share of losses previously absorbed by the Group has been recovered.

3.2 Equity instrument

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as equity in the period in which they are declared.

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight line method so as to write off the cost of the property, plant and equipment over their estimated useful lives. The annual rates used are as follows:

	%
Freehold office buildings	2
Furniture and fittings	10
Office equipment	10
Computers	30
Hardware appliances	10
Motor vehicles	20
Renovation	10

The hardware appliances consisting of exclusive source appliances, programmes and associated documentation are capitalised as they are able to generate economic benefits to the Group. The hardware appliances are depreciated and recognised as expenses based on the forecasted income stream over the expected lives of their economic benefits of ten years.

At each balance sheet date, the Company assess whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

3.4 Prepaid lease assets

Prepaid lease assets are stated at cost less accumulated amortisation and impairment losses. Prepaid lease asset is amortised equally over its lease periods.

3.5 Subsidiary Companies

A subsidiary company is an enterprise in which the Group has the power to exercise control over its financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies, which are eliminated on consolidation, are stated at cost less accumulated impairment losses, if any, in the Company's financial statements. Impairment loss is determined on individual basis.

Gains or losses arising from the disposal of an investment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the investment, and is recognised in the income statement.

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill acquired in a business combination shall not be amortised.

Investment in a subsidiary company is stated at cost. Where an indication of impairment exists, the carrying amount of the subsidiary company are assessed and written down immediately to its recoverable amount as set out in accounting policy Note 3.9 on impairment of assets. On disposal of a subsidiary company, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

3.7 Products development expenditure

Research expenditure are written off to the income statement as and when incurred. Expenditure incurred on specific development projects are recognised as products development expenditure to the extent that such expenditure are expected to generate future economic benefits.

Capitalised products development expenditure is stated at cost less accumulated amortisation and impairment losses. Products development expenditure will be amortised over their expected useful lives upon generation of income.

3.8 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost which is determined on the weighted average basis comprises all expenditure incurred in bringing the stock to their present location and condition. In arriving at the net realisable value due allowance is made for all damaged, obsolete and slow moving items.

3.9 Impairment of assets

As at each balance sheet date, assets, other than stocks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement unless it reverses a previous revaluation credited to reserve. The recoverable amount of an asset is either the net selling price or the value in use of the asset. The net selling price is the amount realisable from the sale of the asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if impossible to be estimated individually, for the cash-generating unit in which the asset is deployed.

Reversal of an impairment loss previously recognised is recorded to the extent the impairment loss had previously been recognised. A reversal of an impairment loss on a revalued asset is credited directly to reserves, unless the impairment loss on the same revalued asset was previously expensed in the income statement, in which case it is recognised as income.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. Known bad debts are written off and specific provision is made against the financial statements for debts which are doubtful of recovery.

3.11 Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

3.12 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash at bank and deposits with banks and highly liquid investments which have an insignificant risk of change in value. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts, if any.

3.13 Long term liabilities

Long term liabilities represent liabilities not due for repayment within a period of twelve months after the balance sheet date.

3.14 Interest income

Interest from fixed deposit is taken into the financial statement as and when receivable.

3.15 Foreign currency transactions

Transactions in foreign currencies have been translated into Ringgit Malaysia at rates of exchange ruling on the transaction dates. Foreign currency assets and liabilities are converted at rate ruling on the balance sheet date. All exchange differences are dealt with in the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

	2007	2006
	RM	RM
1 US Dollar	3.36	3.56
1 Euro	4.88	4.70

3.16 Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the revenue can be measured reliably. Revenue relating to sales of goods is recognised net of discounts upon the transfer of risk and rewards. Revenue from services rendered is recognised net of discounts as and when the services are performed.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Leases and hire purchase

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation or amortisation and impairment losses. The corresponding liabilities are included in the balances sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease and hire purchase, when it is practicable to determine, otherwise, the Company's incremental borrowing rates are used.

Lease and hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liabilities. Finance costs, which represent the difference between the total leasing and hire purchase commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease and hire purchase period so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

3.18 Employee benefits

i) Short term benefits

Wages, salaries, bonuses and social contributions are recognised as expenses in the year in which the associated services are rendered by employees of the company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the income statement when incurred.

3.19 Borrowings

Interest-bearing borrowings are recognised based on the proceeds received, net of transactions costs incurred. Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. All other borrowing costs are charged to the income statement as expenses in the year in which they are incurred.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Income tax

Income tax on the profit or loss for the year comprised current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary differences arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

3.21 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item, where applicable.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments are offset when the company has a legally enforceable right to set off the recognised amounts and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

4. PROPERTY, PLANT AND EQUIPMENT

Company	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
2007						
Cost						
At the beginning of the year	56,096	63,351	41,762	251,457	29,975	442,641
Addition during the year	-	396	1,064	-	-	1,460
At the end of the year	56,096	63,747	42,826	251,457	29,975	444,101
Accumulated depreciation						
At the beginning of the year	10,874	10,415	26,649	50,291	4,711	102,940
Charge for the year	5,610	6,375	10,496	50,291	2,997	75,769
At the end of the year	16,484	16,790	37,145	100,582	7,708	178,709
Net book value						
At the end of the year	39,612	46,957	5,681	150,875	22,267	265,392

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
2006						
Cost						
At the beginning of the year	52,636	38,073	35,307	-	17,133	143,149
Addition during the year	3,460	25,278	6,455	251,457	12,842	299,492
At the end of the year	56,096	63,351	41,762	251,457	29,975	442,641
Accumulated depreciation						
At the beginning of the year	5,264	4,080	14,120	-	1,713	25,177
Charge for the year	5,610	6,335	12,529	50,291	2,998	77,763
At the end of the year	10,874	10,415	26,649	50,291	4,711	102,940
Net book value						
At the end of the year	45,222	52,936	15,113	201,166	25,264	339,701

As at the balance sheet date, there were property, plant and equipment acquired under instalment purchase plans for which there were outstanding instalments. The net book value of these assets amounted to RM150,875 (2006: RM201,166).

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold office buildings RM	Furniture and fittings RM	Office equipment RM	Computers RM	Hardware appliances RM	Motor vehicles RM	Renovation RM	Total RM
2007								
Cost								
At the beginning of the year	2,700,000	162,394	252,597	1,141,674	2,870,000	321,457	29,975	7,478,097
Acquisition of subsidiary	-	715	4,349	2,450	-	-	-	7,514
Addition during the year	-	1,266	15,515	646,411	-	-	-	663,192
Written off during the year	-	(105,198)	(97,049)	(214,420)	-	-	-	(416,667)
At the end of the year	2,700,000	59,177	175,412	1,576,115	2,870,000	321,457	29,975	7,732,136
Accumulated depreciation								
At the beginning of the year	392,160	88,146	117,577	567,331	861,000	92,291	4,711	2,123,216
Acquisition of subsidiary	-	48	290	490	-	-	-	828
Charge for the year	54,000	5,870	17,252	469,993	287,000	64,291	2,997	901,403
Written off during the year	-	(77,162)	(96,860)	(208,522)	-	-	-	(382,544)
At the end of the year	446,160	16,902	38,259	829,292	1,148,000	156,582	7,708	2,642,903
Net book value								
At the end of the year	2,253,840	42,275	137,153	746,823	1,722,000	164,875	22,267	5,089,233

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold office buildings RM	Furniture and fittings RM	Office equipment RM	Computers RM	Hardware appliances RM	Motor vehicles RM	Renovation RM	Total RM
2006								
Cost								
At the beginning of the year	2,032,000	157,834	142,251	471,436	2,870,000	70,000	17,133	5,760,654
Addition during the year	668,000	4,560	110,346	670,238	-	251,457	12,842	1,717,443
At the end of the year	<u>2,700,000</u>	<u>162,394</u>	<u>252,597</u>	<u>1,141,674</u>	<u>2,870,000</u>	<u>321,457</u>	<u>29,975</u>	<u>7,478,097</u>
Accumulated depreciation								
At the beginning of the year	338,160	77,729	100,418	268,170	574,000	28,000	1,713	1,388,190
Charge for the year	54,000	10,417	17,159	299,161	287,000	64,291	2,998	735,026
At the end of the year	<u>392,160</u>	<u>88,146</u>	<u>117,577</u>	<u>567,331</u>	<u>861,000</u>	<u>92,291</u>	<u>4,711</u>	<u>2,123,216</u>
Net book value								
At the end of the year	<u>2,307,840</u>	<u>74,248</u>	<u>135,020</u>	<u>574,343</u>	<u>2,009,000</u>	<u>229,166</u>	<u>25,264</u>	<u>5,354,881</u>

As at the balance sheet date, there were property, plant and equipment acquired under instalment purchase plans for which there were outstanding instalments. The net book value of these assets amounted to RM164,875 (2006: RM229,166).

The Group's freehold office buildings were charged to licensed banks for banking facilities granted to a subsidiary company and their net book value were RM2,253,840 (2006: RM1,976,600).

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5.	PREPAID LEASE ASSETS	2007 RM	2006 RM
	<u>Group</u>		
	At cost		
	Addition during the year	1,005,165	-
	Less : Amortisation	(20,940)	-
		984,225	-
6.	GOODWILL	2007 RM	2006 RM
	<u>Group</u>		
	At cost		
	At the beginning of the year	2,026,255	2,026,255
	Goodwill arising from business combination during the year	1,483,956	-
	At the end of the year	3,510,211	2,026,255
7.	INTEREST IN SUBSIDIARY COMPANIES	2007 RM	2006 RM
	Unquoted shares, at cost	6,570,000	6,570,000
	Amount owing by subsidiary companies	5,970,831	6,027,661
	Amount owing to a subsidiary company	-	(47,500)
		12,540,831	12,550,161

The Company has:

- (i) 100% (2006: 100%) interest in the shares of EXTOL CORPORATION (M) SDN. BHD. (Company No. 121135-U), a company incorporated in Malaysia whose principal activities are those of sale and research and development of security technology, security maintenance and professional security services and training.
- (ii) 100% (2006: 100%) interest in the shares of EXTOL MARKETING SDN. BHD. (Company No. 647402-P), a company incorporated in Malaysia whose principal activity is that of trading in computer hardware, software, related equipment and software development.
- (iii) 68% (2006: Nil) indirect interest in the shares of INNODIUM SDN. BHD. (Company No. 596701-T), a company incorporated in Malaysia whose principal activity is engaged in the business of software development and trading in software products.

The amount owing by/(to) subsidiary companies are unsecured, interest free and have no fixed term of repayment.



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8. PRODUCT DEVELOPMENT EXPENDITURE

<u>Company</u>	2007 RM	2006 RM
Product development expenditure, at cost		
At the beginning of the year	2,884,394	1,554,537
Addition during the year	1,057,798	1,329,857
	3,942,192	2,884,394
Less: Amortisation of product development expenditure		
At the end of the year	(488,932)	(200,492)
	3,453,260	2,683,902
<u>Group</u>	2007 RM	2006 RM
Product development expenditure, at cost		
At the beginning of the year	5,111,724	3,781,867
Addition during the year	1,057,798	1,329,857
	6,169,522	5,111,724
Less: Amortisation of product development expenditure		
At the end of the year	(1,299,323)	(788,152)
	4,870,199	4,323,572

Product development expenditure includes the following expense for the year:

<u>Company and Group</u>	2007 RM	2006 RM
Rental of premises	29,543	31,115
	29,543	31,115

9. TRADE RECEIVABLES

The currency exposure profile of trade receivables is as follows:

<u>Company</u>	2007 RM	2006 RM
Ringgit Malaysia	786,860	880,606
US Dollar	17,490	670,554
	804,350	1,551,160
<u>Group</u>	2007 RM	2006 RM
Ringgit Malaysia	6,475,460	6,878,195
US Dollar	17,490	670,554
	6,492,950	7,548,749

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

9. TRADE RECEIVABLES (CONTINUED)

The normal trade credit terms given by the Company and Group ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-to-case basis. The Company and Group have no significant concentration of credit risk that may arise from exposures to a single debtor.

10. OTHER RECEIVABLES

<u>Company</u>	2007 RM	2006 RM
Other receivables	3,000	6,066
Deposits	7,712	8,461
Prepayments	2,500	17,090
	13,212	31,617
	13,212	31,617
<u>Group</u>	2007 RM	2006 RM
Other receivables	40,618	326,089
Deposits	50,839	39,487
Prepayments	33,705	17,090
	125,162	382,666
	125,162	382,666

Other receivables are denominated in Ringgit Malaysia.

11. SHORT TERM INVESTMENT

<u>Company and Group</u>	2007 RM	2006 RM
Short term investment with licensed institution	854,969	1,038,928
	854,969	1,038,928
	854,969	1,038,928

The interest rate of the investment as at 31st December 2007 is as follows:

<u>Company and Group</u>	2007 %	2006 %
Short term investment with licensed institution	3.03	3.09
	3.03	3.09
	3.03	3.09

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12. FIXED DEPOSITS WITH LICENSED BANKS

<u>Group</u>	2007 RM	2006 RM
Fixed deposits with licensed banks	1,468,823	2,527,068

The interest rate and maturity of the deposit as at 31st December 2007 are as follows:

<u>Group</u>	Interest rate		Maturity	
	2007 %	2006 %	2007 Days	2006 Days
Fixed deposits with licensed banks	3.1	3.2	30	30

Fixed deposits with licensed banks of a subsidiary company are pledged to the banks for credit facilities granted to the subsidiary company.

13. SHARE CAPITAL

Company and Group

	2007		2006	
	Number of shares	RM	Number of shares	RM
Authorised:				
At 1st January	250,000,000	25,000,000	25,000,000	25,000,000
Sub-division of shares to RM0.10 each during the year	-	-	225,000,000	-
At 31st December	250,000,000	25,000,000	250,000,000	25,000,000
Issued and fully paid:				
At 1st January	104,400,000	10,440,000	7,830,000	7,830,000
Sub-division of shares to RM0.10 each during the year	-	-	70,470,000	-
	104,400,000	10,440,000	78,300,000	7,830,000
Issuance of new ordinary shares of RM0.10 each during the financial year	-	-	26,100,000	2,610,000
At 31st December	104,400,000	10,440,000	104,400,000	10,440,000

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14. SHARE PREMIUM

<u>Company and Group</u>	2007 RM	2006 RM
At 1st January	3,620,000	-
Premium arising from share issued pursuant to Initial Public Offer (IPO)	-	5,220,000
Expenses incurred for corporate listing exercise	-	(1,600,000)
At 31st December	3,620,000	3,620,000

The share premium is not distributable by way of cash dividends and may be utilised in the manner set out in Section 60(3) of the Companies Act, 1965.

15. BORROWINGS

<u>Company</u>	2007 RM	2006 RM
Short term borrowing		
Lease and hire purchase creditor	40,002	40,002
Long term borrowing		
Lease and hire purchase creditor	106,662	146,664

All lease and hire purchase creditor are denominated in Ringgit Malaysia and details are as follows:

<u>Company</u>	2007 RM	2006 RM
Minimum lease and hire purchase payments:		
Payable not later than one year	45,144	45,144
Payable after one year but before five years	120,364	165,508
	165,508	210,652
Less: Finance charges	(18,844)	(23,986)
Present value of lease and hire purchase liabilities	146,664	186,666
Present value of hire purchase liabilities:		
Payable not later than one year	40,002	40,002
Payable after one year but before five years	106,662	146,664
	146,664	186,666
Effective interest rate per annum	2.57%	2.57%

Lease and hire purchase creditor are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

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15. BORROWINGS (CONTINUED)

<u>Group</u>	2007 RM	2006 RM
Short term borrowings		
Secured:		
i) Lease and hire purchase creditors	291,282	48,752
ii) Term loans	68,376	83,117
iii) Bankers acceptances	844,000	1,385,000
iv) Bank overdraft	-	570,536
	1,203,658	2,087,405
Long term borrowings		
Secured:		
i) Lease and hire purchase creditors	839,607	146,664
ii) Term loans	496,424	541,109
	1,336,031	687,773

All borrowings are denominated in Ringgit Malaysia.

i) Details on the lease and hire purchase creditors are as follows:

<u>Group</u>	2007 RM	2006 RM
Minimum lease and hire purchase payments:		
Payable not later than one year	337,188	55,049
Payable after one year but before five years	974,039	165,508
	1,311,227	220,557
Less: Finance charges	(180,338)	(25,141)
Present value of lease and hire purchase liabilities	1,130,889	195,416
Present value of lease and hire purchase liabilities:		
Payable not later than one year	291,282	48,752
Payable after one year but before five years	839,607	146,664
	1,130,889	195,416
Effective interest rate per annum	2.57% - 4.1%	2.57% - 4.4%

Lease and hire purchase creditors are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

15. BORROWINGS (CONTINUED)

ii) Details on the term loans are as follows:

<u>Group</u>	2007 RM	2006 RM
Payable within one year	68,376	83,117
Payable after one year but before five years	368,852	323,488
Payable after five years	127,572	217,621
	496,424	541,109
	564,800	624,226

Term loans which are subjected to interest:-

- (a) at 2% per annum below the base lending rate for the first year, 0.25% per annum above the base lending rate for the second year and 0.75% per annum above the bank's base lending rate thereafter, and
- (b) at 3.45% per annum for the first year, 1% per annum below the base lending rate for the second year and 0.5% per annum above the bank's base lending rate thereafter.

iii) Details on the bankers acceptances are as follows:

<u>Group</u>	2007 RM	2006 RM
Interest rate per annum	3.9% to 4.45%	3.53% to 4.65%

Bankers' acceptances have credit periods of 120 days (2006: 120 days).

iv) Details on the bank overdraft is as follows:

Bank overdraft which bears interest at 1.5% (2006: 2%) per annum above the bank's base lending rate is payable on demand.

The above banking facilities are secured by way of:-

- (a) a charge on a subsidiary company's freehold office buildings,
- (b) a pledge of the subsidiary company's fixed deposit, and
- (c) guarantees by certain directors of the Company and a third party.

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16. DEFERRED TAX LIABILITIES

<u>Group</u>	2007 RM	2006 RM
At 1st January	848,015	755,532
Addition during the year	30,026	92,483
At 31st December	878,041	848,015

Deferred tax liabilities and assets are offset where there is legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The amounts, determined after appropriate offsetting, are as follows:

	2007 RM	2006 RM
Deferred tax liabilities		
- property, plant and equipment	530,468	451,283
- product development expenditure	347,573	419,107
Deferred tax assets		
- unabsorbed business losses	-	(22,375)
	878,041	848,015

17. TRADE PAYABLES

The currency exposure profile of trade payables is as follows:

<u>Company</u>	2007 RM	2006 RM
Ringgit Malaysia	5,000	6,500
<u>Group</u>	RM	RM
Ringgit Malaysia	2,625,640	890,274
EURO	5,634	29,289
US Dollar	-	145,959
	2,631,274	1,065,522

The normal trade credit terms received by the Company and Group ranges from 30 days to 60 days.

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18. OTHER PAYABLES

<u>Company</u>	2007 RM	2006 RM
Other payables	11,213	17,775
Payroll liabilities	46,149	74,376
Accruals	14,000	14,000
	71,362	106,151
	71,362	106,151
<u>Group</u>	2007 RM	2006 RM
Other payables	70,195	74,823
Payroll liabilities	82,187	227,614
Accruals	45,145	23,400
	197,527	325,837
	197,527	325,837

Other payables are denominated in Ringgit Malaysia.

19. TURNOVER

Company and Group

These represent billing for net invoiced value of goods sold and services rendered.

20. FINANCE EXPENSES

<u>Company</u>	2007 RM	2006 RM
Hire purchase interest	5,142	1,714
<u>Group</u>	2007 RM	2006 RM
This comprises interest expense on:		
- bank overdraft	3,066	25,209
- bills payable	13,267	94,835
- lease and hire purchase	9,734	3,694
- term loans	47,794	44,239
	73,861	167,977
	73,861	167,977

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

21. PROFIT BEFORE TAXATION

The company's and group's profit before taxation is stated:

<u>Company</u>	2007 RM	2006 RM
After charging:		
Amortisation of product development expenditure	288,440	155,454
Auditors' remuneration		
- other emoluments	2,500	2,500
- current year provision	11,500	11,500
- over-provision in previous year	-	(2,000)
Depreciation of property, plant and equipment	75,769	77,763
Development cost written off	20,000	-
Loss in foreign exchange	47,234	48,030
Rental of premises	5,357	4,495
Staff costs (Note 22)	741,934	462,044
	=====	=====
and crediting:		
Interest income	66,428	94,486
	=====	=====
<u>Group</u>		
After charging:		
Amortisation of prepaid lease assets	20,940	-
Amortisation of product development expenditure	511,171	378,186
Auditors' remuneration		
- other emoluments	2,500	2,500
- current year provision	24,200	22,500
- over-provision in previous year	-	(1,500)
Bad debts	13,108	-
Depreciation of property, plant and equipment	901,403	735,026
Development cost written off	20,000	-
Loss in foreign exchange	47,234	37,804
Property, plant and equipment written off	34,123	-
Rental of premises	34,489	12,655
Staff costs (Note 22)	2,780,127	1,712,717
	=====	=====
and crediting:		
Gain in foreign exchange	1,185	-
Interest income	108,887	121,554
Rental income	99,000	91,100
	=====	=====

**EXTOL MSC BERHAD
AND SUBSIDIARY COMPANIES**

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

22. STAFF COSTS

<u>Company</u>	2007 RM	2006 RM
Salaries, bonus and allowances	242,518	106,803
EPF and SOCSO contributions	34,413	17,821
Other staff related expenses	53,963	37,840
Directors' remuneration		
- fees	61,200	-
- salaries, bonus and allowances	313,300	268,000
- EPF contributions	36,540	31,580
	<u>741,934</u>	<u>462,044</u>
<u>Group</u>	2007 RM	2006 RM
Salaries, bonus and allowances	1,846,717	1,045,337
EPF and SOCSO contributions	227,333	142,153
Other staff related expenses	115,197	79,887
Directors' remuneration		
- fees	61,200	-
- salaries, bonus and allowances	489,300	402,000
- EPF contributions	40,380	43,340
	<u>2,780,127</u>	<u>1,712,717</u>

23. TAXATION

<u>Company</u>	2007 RM	2006 RM
Taxation for the year	-	(15,112)
	<u>-</u>	<u>(15,112)</u>
Reconciliation of tax expenses:-		
Profit before taxation	<u>267,963</u>	<u>1,269,076</u>
Income tax at Malaysian's tax rates	(72,350)	(355,341)
Effect of expenses not deductible for tax purposes	(133,479)	(97,764)
Effect of expenditure deductible for tax purposes but capitalised in balance sheet	188,123	372,360
Effect of non taxable income	17,706	11,344
Effect of utilisation of current year's capital allowances	-	15,152
Effect of taxation exempted under MSC status	-	39,137
Taxation for the year	<u>-</u>	<u>(15,112)</u>

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

23 TAXATION (CONTINUED)

<u>Group</u>	2007 RM	2006 RM
Taxation for the year	(65,000)	(20,525)
Over/(Under)-provision in previous year	3,014	(135)
Deferred taxation	(30,026)	(92,483)
	<u>(92,012)</u>	<u>(113,143)</u>
Reconciliation of tax expenses:-		
Profit before taxation	<u>699,843</u>	<u>1,570,714</u>
Income tax at Malaysian's tax rates	(159,892)	(416,862)
Effect of expenses not deductible for tax purposes	(380,765)	(311,945)
Effect of expenditure deductible for tax purposes but capitalised in balance sheet	188,123	372,360
Effect of utilisation of current and previous year's capital allowances	216,706	251,092
Effect of utilisation of current and previous year's business loss	53,122	34,349
Effect of non taxable income	17,706	11,344
Effect of taxation exempted under MSC status	-	39,137
Over/(Under)-provision in previous year	3,014	(135)
Deferred taxation	(30,026)	(92,483)
Taxation for the year	<u>(92,012)</u>	<u>(113,143)</u>

The Company has been granted the Multimedia Super Corridor (MSC) Status on 8th September 2004 and awarded the Pioneer Status under Section 4A of the Promotion of Investment (Amendment) Act, 1986.

Subject to agreement from the Inland Revenue Board, the Company has, as at 31st December 2007,

- (i) unabsorbed business losses and capital allowances amounting to approximately RM383,200 (2006: Nil) which is available for set off against future income, and
- (ii) tax exempt income amounting to approximately RM1,237,900 (2006: RM1,237,900) which can be used to pay tax exempt dividend.

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

24 EARNINGS PER SHARE

Basic earnings per share (adjusted to incorporate the effects of share split) of the Company and the Group is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue for the financial year.

<u>Company</u>	2007	2006
Net profit for the financial year (RM)	267,963	1,253,964
Weighted average number of ordinary shares in issue (unit)	104,400,000	99,537,534
Basic earnings per share (sen)	0.26	1.26
 <u>Group</u>	 2007	 2006
Net profit for the financial year (RM)	564,660	1,457,571
Weighted average number of ordinary shares in issue (unit)	104,400,000	99,537,534
Basic earnings per share (sen)	0.54	1.46

25 ACQUISITION OF SUBSIDIARY COMPANY

The subsidiary company acquired by the Group in the financial year is INNODIUM SDN. BHD. (Company No. 596701-T). The fair value of assets and liabilities acquired were as follows:

	2007 RM	2006 RM
Property, plant and equipment	(6,686)	-
Trade receivables	(179,426)	-
Other receivables	(12,011)	-
Cash and bank balances	(152,021)	-
Minority interest	101,668	-
Trade payables	31,523	-
Other payables	909	-
	(216,044)	-
Goodwill	(1,483,956)	-
	(1,700,000)	-
Add: Cash and bank balances of subsidiary company acquired	152,021	-
Cash used in acquisition, net of cash	(1,547,979)	-

**EXTOL MSC BERHAD
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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

26 CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR

<u>Company</u>	2007 RM	2006 RM
Short term investment	854,969	1,038,928
Cash and bank balances	450,244	16,081
	<u>1,305,213</u>	<u>1,055,009</u>
	2007	2006
<u>Group</u>	RM	RM
Short term investment	854,969	1,038,928
Fixed deposits with licensed banks	1,468,823	2,527,068
Cash and bank balances	1,890,260	67,812
Bank overdraft	-	(570,536)
	<u>4,214,052</u>	<u>3,063,272</u>

27 SIGNIFICANT RELATED PARTY DISCLOSURES

<u>Company</u>	2007 RM	2006 RM
Advances to subsidiary companies	2,063,474	11,046,238
Expenses paid on behalf for a subsidiary company	301,276	317,562
Expenses paid on behalf by subsidiary companies	571,654	1,750,912
Payment to supplier for a subsidiary company	35,576	238,961
Purchases from a subsidiary company	912,230	394,012
Repayment from a subsidiary company	2,831,727	5,874,834
Sales proceeds received by a subsidiary company	-	197,395
Sales to a subsidiary company	1,905,955	2,049,655
Assignment of debt from subsidiary companies	505,000	-

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

28 SEGMENTAL INFORMATION

The Company is principally carrying out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings.

The segmental results for the Group are as follows:-

	Anti-Virus Software		Managed Security Solutions		Secured Enterprises Applications		Group	
	RM	%	RM	%	RM	%	RM	%
Sales	107,604	0.8	12,698,735	97.7	194,540	1.5	13,000,879	100.0
Cost of sales	(37,441)	0.3	(7,154,939)	55.0	-	-	(7,192,380)	55.3
Gross profit	70,163	0.5	5,543,796	42.7	194,540	1.5	5,808,499	44.7

29 FINANCIAL INSTRUMENTS

Company and Group

i) Financial risk management objective and policies

The Company's financial risk management policies seek to ascertain that adequate financial resources are available for the development of the Company's business whilst managing its foreign currency exchange, credit, liquidity and market risks.

ii) Interest rate risk

The Company is exposed to interest rate risk through the impact of interest rate changes on interest bearing borrowings from financial institutions.

iii) Credit risk

The Company has no major concentration of credit risk. Cash is placed with credit worthy financial institutions.

The maximum exposure to credit risk in the event that the counter-parties fail to perform their obligations as at end of the financial year in relation to trade receivable is the carrying amount of trade receivables as stated in the balance sheet as at the end of the financial year.

iv) Foreign currency exchange risk

The Company is exposed to currency risk as a result of transactions entered into in currencies other than its functional currency.

Foreign exchange exposures in transactional currencies other than functional currency are kept to an acceptable level. The Company has not entered into any derivative financial instruments such as forward foreign exchange contracts.

**EXTOL MSC BERHAD
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NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2007

29 FINANCIAL INSTRUMENTS (CONTINUED)

v) Liquidity risk

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuation in cash flows. The Company maintains adequate funds to meet their obligations as and when they fall due.

vi) Fair value of financial assets and financial liabilities

The carrying amounts in respect of the Company's financial assets and financial liabilities in the financial statements approximate their fair values due to the relatively short term nature of these financial instruments.

The responsibility for managing the above risks is vested in the directors.

30 PROCEEDS OF PUBLIC ISSUE

The gross proceeds from the Public Issue of 26,100,000 shares in financial year ended 31st December 2006 amounting to RM7,830,000 were proposed to be utilised as follows:

	RM
Research and development	3,066,000
Business expansion	1,917,000
Working capital	1,247,000
Listing expenses	1,600,000
	7,830,000

As at 31st December 2007, all the proceeds were utilised in the manner as proposed except for an unutilised balance of RM1,221,271 in relation to:

	RM
Research and development	829,672
Business expansion	149,599
Working capital	242,000
	1,221,271

31 CONTINGENT LIABILITY

Company

As at 31st December 2007, there were outstanding contingent liabilities in respect of corporate guarantees given to secure banking facilities granted by banks to a subsidiary company amounting to RM726,183 (2006: Nil). The directors do not anticipate any losses arising from these contingencies.

32 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current year's presentation.

Statistic of Shareholdings

As of 29 April 2008

Authorized Share Capital	RM25,000,000
Issued and fully paid up Share Capital	RM10,440,000 comprising of 104,400,000 ordinary shares of RM0.10 each
Class of Shares	Ordinary shares of RM0.10 each fully paid up
Voting Rights	One vote per RM0.10 ordinary share

Analysis by Size of Shareholding

	No of shareholders	% shareholders	No of shares held	% of issued capital
1 to 99 shares	5	0.52	282	0.00
100 to 1,000 shares	140	14.61	75,250	0.07
1,001 to 10,000 shares	360	37.58	2,438,348	2.34
10,001 to 100,000 shares	387	40.40	14,387,200	13.78
100,001 to 5,219,999 shares (*)	61	6.37	31,349,415	30.03
5,220,000 and above shares (**)	5	0.52	56,149,505	53.78
	958	100.00	104,400,000	100.00

Remark : (*) - Less than 5% of issued shares

(**) - 5% and above of issued shares

List of Substantial Shareholders' Shareholdings (5% and above)

Name	No of Shares Held			
	Direct	%	Indirect	%
Justin Tan Seng Kooi	16,659,800	15.96	35,769,900 ^(a)	34.26
Tan Chin Eng	12,710,700	12.18	39,719,000 ^(b)	38.05
Lee Choon Kee	11,679,600	11.19	40,750,100 ^(c)	39.03
Alex Tan Seng Keng	11,379,600	10.90	41,050,100 ^(d)	39.32
Lim Chew Hian	8,725,900	8.36	895,000 ^(e)	0.86

List of Directors' Shareholdings

Name	No of Shares Held			
	Direct	%	Indirect	%
Justin Tan Seng Kooi	16,659,800	15.96	35,769,900 ^(a)	34.26
Lee Choon Kee	11,679,600	11.19	40,750,100 ^(c)	39.03
Alex Tan Seng Keng	11,379,600	10.90	41,050,100 ^(d)	39.32
Lee Boon Kok	-	-	-	-
Mohd Fadzli Bin Ibrahim	-	-	-	-

Note :

- Deemed interested via his father, Tan Chin Eng's (12,710,700), his mother, Lee Choon Kee's (11,679,600) and his brother, Alex Tan Seng Keng's (11,379,600) shareholdings.
- Deemed interested via his wife, Lee Choon Kee's (11,679,600), his sons, Justin Tan Seng Kooi's (16,659,800) and Alex Tan Seng Keng's (11,379,600) shareholdings.
- Deemed interested via her husband, Tan Chin Eng's (12,710,700), her sons, Justin Tan Seng Kooi's (16,659,800) and Alex Tan Seng Keng's (11,379,600) shareholdings.
- Deemed interested via his father, Tan Chin Eng's (12,710,700), his mother, Lee Choon Kee's (11,679,600) and his brother, Justin Tan Seng Kooi's (16,659,800) shareholdings.
- Deemed interested via her mother, Chang Siw Fong's (345,000), her brother, Lim Chew Yuen's (550,000) shareholdings.

List of Thirty (30) Largest Shareholders

As of 29 April 2008

No	Shareholder	No of Shares	%
1	Justin Tan Seng Kooi	16,659,800	15.96
2	Tan Chin Eng	12,710,700	12.18
3	Alex Tan Seng Keng	11,379,600	10.90
4	Lim Chew Hian	8,500,000	8.14
5	Lee Choon Kee	6,673,505	6.39
6	ECML Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hah Pin Kiew	3,499,600	3.35
7	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Choon Kee (CEB)	3,300,000	3.16
8	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	2,817,000	2.70
9	Wong Lye Chun @ Wong Lai Chan	2,524,800	2.42
10	Ng Choo Kit	2,350,000	2.25
11	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Choon Kee	1,706,095	1.63
12	Hiah Swee Hiang	1,100,000	1.05
13	Zaini Bin Zainuddin	667,600	0.64
14	Daniel Tan Chien Ming	620,000	0.59
15	HSBC Nominees (Asing) Sdn Bhd HSBC-FS for ASEAN Emerging Companies Growth Fund Ltd	612,000	0.59
16	Lim Chew Yuen	550,000	0.53
17	Boo Chen Beng	500,000	0.48
18	Kok We Tian @ Kok Wee Tian	500,000	0.48
19	Lean Mun Huat	455,900	0.44
20	Lim Poh Hong	455,800	0.44
21	Ho Tau Tai	400,100	0.38
22	Soon Fook Kian	380,000	0.36
23	Chuah Tiong Pan	350,000	0.33
24	Ong Hok Liong	330,000	0.32
25	Hiah Swee Hiang	307,600	0.29

No	Shareholder	No of Shares	%
26	Chhoa Kwang Hua	300,000	0.29
27	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chee Shok Fong	300,000	0.29
28	Teh Hong Chuan	300,000	0.29
29	Too Liang Nun	300,000	0.29
30	Chang Siw Fong	295,000	0.28
	Total	<u>80,845,100</u>	<u>77.44</u>

List of Properties

	Registered Owner	Title / Location	Description / Existing use	Land / built-up	Tenure	Approximate age of building	Encumbrances	Audited net book value as at 31.12.07 (RM)	Year of Acquisition
1	Extol Corporation	Prima Square 13-1 Block I, Dataran Prima, Jalan PJU 1/37, 47301 Petaling Jaya, Selangor Darul Ehsan.	Office Lot	1,282 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	304,000	Dec, 1995
2	Extol Corporation	Prima Square 13-2 Block I, Dataran Prima, Jalan PJU 1/37, 47301 Petaling Jaya, Selangor Darul Ehsan.	Office Lot	1,487 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	200,000	Dec, 1995
3	Extol Corporation	Prima Square 13-3 Block I, Dataran Prima, Jalan PJU 1/37, 47301 Petaling Jaya, Selangor Darul Ehsan.	Office Lot	1,480 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	200,000	Dec, 1995
4	Extol Corporation	Prima Square 13-4 Block I, Dataran Prima, Jalan PJU 1/37, 47301 Petaling Jaya, Selangor Darul Ehsan.	Office Lot	1,480 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	200,000	Dec, 1995
5	Extol Corporation	Prima Square 13-5 Block I, Dataran Prima, Jalan PJU 1/37, 47301 Petaling Jaya, Selangor Darul Ehsan.	Office Lot	1,487 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	200,000	Dec, 1995

List of Properties

	Registered Owner	Title / Location	Description / Existing Use	Land / Built-up	Tenure	Approximate age of buildings	Encumbrances	Audited net book value as at 31.12.07 (RM)	Year of Acquisition
6	Extol Corporation	Subang Business Centre 5-5, Jalan USJ 9/5Q, Subang Business Centre, 47620 UEP-Subang Jaya, Selangor Darul Ehsan.	Office Lot	1,726 sq. ft.	Freehold	10 years	Deed of assignment in favor of Alliance Bank Malaysia Berhad	254,280	Apr, 1995
7	Extol Corporation	Subang Business Centre 7-5, Jalan USJ 9/5Q, Subang Business Centre, 47620 UEP-Subang Jaya, Selangor Darul Ehsan.	Office Lot	1,726 sq. ft.	Freehold	10 years	Deed of assignment in favor of Alliance Bank Malaysia Berhad	254,280	Apr, 1995
8	Extol Corporation	Subang Business Centre, 9-5, Jalan USJ 9/5Q, Subang Business Centre, 47620 UEP-Subang Jaya, Selangor Darul Ehsan.	Office Lot	1,726 sq. ft.	Freehold	10 years	Title charged to Alliance Bank Malaysia Berhad	324,480	Nov, 2005
9	Extol Corporation	Subang Business Centre 11-5, Jalan USJ 9/5Q, Subang Business Centre, 47620 UEP-Subang Jaya, Selangor Darul Ehsan.	Office Lot	1,726 sq. ft.	Freehold	10 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	316,800	May, 2005

EXTOL MSC BERHAD (643683-U)
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NOTICE OF FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fourth Annual General Meeting of the Company will be held at Pahlawan 7 & 8, Level 5, The Summit Hotel Subang USJ, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan on **Tuesday, 24 June 2008 at 10.30 a.m.**, to transact the following businesses:-

AS ORDINARY BUSINESS: -

1. To receive the Audited Financial Statements for the financial year ended 31 December 2007 and the Reports of Directors and Auditors thereon. (Ordinary Resolution 1)
2. To re-elect Mr Alex Tan Seng Keng who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association. (Ordinary Resolution 2)
3. To re-elect Mr Lee Boon Kok who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association. (Ordinary Resolution 3)
4. To re-appoint Messrs C.K. Cheah & Co. as Auditors of the Company for the financial year ending 30 September 2008 and to authorise the Directors to fix the Auditors' remuneration. (Ordinary Resolution 4)

AS SPECIAL BUSINESS: -

5. To approve the payment of Directors' Fees of RM61,200 for the financial year ended 31 December 2007. (Ordinary Resolution 5)
6. To approve the payment of Directors' Fees of not more than RM90,000 per annum for the financial years subsequent to the financial year ended 31 December 2007. (Ordinary Resolution 6)
7. To consider and if thought fit, to pass the following Ordinary Resolution, with or without modifications: -

AUTHORITY TO ISSUE SHARES

"THAT subject always to the Companies Act, 1965, Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965 to issue and allot not more than ten percent (10%) of the issued capital of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof."

(Ordinary Resolution 7)

8. **PROPOSED AMENDMENT TO THE BY-LAWS OF THE COMPANY'S EXISTING EMPLOYEES' SHARE OPTION SCHEME ("PROPOSED AMENDMENT")** (Ordinary Resolution 8)

"THAT, the By-Laws of the Company's existing Employees' Share Option Scheme ("**Scheme**") be amended by substituting for By-Law 6.1 with the following:

Existing bye-law as set out in Chapter 15 of the Company's Prospectus dated 27 February 2006:

- 6.1 *The categories of Employees who are eligible to participate in the Scheme and their Maximum Allowable Allotment are as follows: -*

Category of Employee	Maximum Allowable Allotment
<i>Executive Directors</i>	<i>500,000</i>
<i>Non-Executive Directors</i>	<i>100,000</i>
<i>Management / Professional</i>	<i>100,000</i>
<i>Technical / Supervision</i>	<i>70,000</i>
<i>Clerical</i>	<i>50,000</i>
<i>General workers</i>	<i>30,000</i>

Proposed amendment:

- 6.1 *The categories of Employees who are eligible to participate in the Scheme and their Maximum Allowable Allotment are as follows: -*

Category of Employee	Maximum Allowable Allotment
<i>Executive Directors</i>	<i>500,000</i>
<i>Non-Executive Directors</i>	<i>100,000</i>
<i>Management</i>	<i>750,000</i>
<i>Technical / Supervision /Professional</i>	<i>250,000</i>
<i>Clerical /General Workers</i>	<i>80,000</i>

AND THAT the Directors of the Company be and are hereby authorised:

- (i) to give effect and to implement the aforesaid amendment with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities and to take all such steps as they may deem necessary or expedient in order to implement, finalise and give full effect to the aforesaid amendment;
- (ii) to allot and issue from time to time such number of new ordinary shares of RM0.10 each ("**Shares**") in the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided that the aggregate number of new Shares to be issued and allotted shall not exceed ten percent

(10%) of the total issued and paid-up share capital of the Company at the point of granting of the options during the existence of the Scheme subject always to any adjustments which may be made in accordance with the amended By-Laws governing and constituting the Scheme from time to time during the duration of the Scheme and that such new Shares to be issued upon any exercise of the options will upon allotment and issuance, rank *pari passu* in all respects with the then existing, issued and fully paid-up Shares of the Company save and except that they are not entitled to any dividends, rights, allotments and/or other distributions whereby the entitlement date for such dividends, rights, allotments and/or other distributions shall be prior to the date of allotment of such Shares and will be subject to all the provisions of the articles of association relating to voting, transfer, transmission and otherwise of the Shares; and

- (iii) make the necessary applications and do all things necessary at the appropriate time or times to the Bursa Malaysia Securities Berhad for the listing of and quotation for any new Shares which may hereafter and from time to time be allotted and issued pursuant to the exercise of options granted under the Scheme in accordance with the By-Laws.“

- 9. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

BY ORDER OF THE BOARD

WONG WEI FONG (MAICSA 7006751)

LIM LEE KUAN (MAICSA 7017753)

Secretaries

Petaling Jaya

Date: 2 June 2008

Notes:-

- I. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead and the holder shall specify the proportion of his shareholding to be represented by each proxy; a proxy need not be a member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- II. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of an officer or its attorney duly authorised.
- III. The instrument appointing a proxy must be deposited at the registered office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting, i.e. on or before **10.30 a.m., Sunday, 22 June 2008.**

Explanatory Note on Special Business:-

1. Ordinary Resolution 5

The proposed Ordinary Resolution 5 is in accordance with Article 94 of the Company's Articles of Association and if passed, will authorise the payment of Directors' Fees to the Directors of the Company for their services as Directors for the year ended 31 December 2007.

2. Ordinary Resolution 6

The proposed Ordinary Resolution 6, if passed, will empower the Board of Directors to pay the Directors' Fees within the limit of the annual quantum so approved. The Company does not need to seek the Shareholders' approval again at the subsequent Annual General Meetings, unless there is a proposed increase put forth by the Board of Directors of the Company.

3. Ordinary Resolution 7

The proposed Ordinary Resolution 7, if passed, will authorise the Directors of the Company to allot and issue not more than 10% of the issued share capital of the Company subject to the approvals of all the relevant governmental/regulatory bodies. This authorisation will empower the Directors of the Company to issue shares notwithstanding that the authorisation has ceased to be in force if the shares are issued in pursuance of an offer, agreement or option made or granted by the Directors while the authorisation was in force. This authorisation will expire at the conclusion of the next Annual General Meeting of the Company.

4. Ordinary Resolution 8

The proposed Ordinary Resolution 8, if passed, will increase the number of options to be granted to eligible employees except for the directors of the Company. This will further serve to:

- (i) motivate and encourage eligible employees of the Company towards greater dedication and loyalty with enhanced productivity;
- (ii) reward and retain eligible employees whose services are vital to the operations and continued growth of the Group, thus ensuring that loss of key personnel is kept to the minimum;
- (iii) provide an incentive to eligible employees to participate more actively in the operations of the Group as well as generate a sense of ownership through equity participation; and
- (iv) attract new talents to join the Company.

The total quantum of shares to be issued under the Scheme will remain unchanged at 10% of the total issued and paid-up share capital of the Company at the point of granting of the options. Further, the allocation to directors remains unchanged.

As such, the Proposed Amendment has no effect on the share capital, net assets, gearing, earnings and dividend policies of the Extol Group for the FYE 30 September 2008.

The Proposed Amendment is not expected to have any immediate effect on the substantial shareholding structure of the Company until such time as and when the options are exercised under the Scheme. Any potential effect on the substantial shareholding structure of Extol in the future would depend on the number of options granted and exercise at the relevant point in time.

For illustrative purposes only and assuming the full exercise of the options under the Scheme, the proforma effects of the amended Scheme on the shareholdings of the Company's substantial shareholders as at 29 April 2008 (being the latest practicable date that information on shareholding are available) are as follows:

Name	Existing shareholding (as at 29 April 2008)		Assuming full exercise of the options to be granted pursuant to the amended Scheme	
	No. of shares	%	No. of shares	%
Lim Chew Hian	8,725,900	8.36	9,475,900*	8.25

Note:-

* Assuming that Lim Chew Hian, a substantial shareholder of the Company is granted the proposed maximum entitlement under the Management category of 750,000 options and exercises the same into 750,000 new Shares.

The allocations to directors will not be revised. As such, none of the directors or major shareholders of the Company have any interest in the Proposed Amendment. The Board of the Company, having considered all aspects of the Proposed Amendment, recommend that you vote in favour of the ordinary resolution for the Proposed Amendment to be tabled at the forthcoming fourth Annual General Meeting.

The existing and proposed By-Laws of the Scheme are available for inspection at the Registered Office of the Company during business hours from Mondays to Fridays (except public holidays) from the date of this Notice up to and including the date of the forthcoming fourth Annual General Meeting.

Statement Accompanying Notice of Annual General Meeting

Details of Directors who are standing for re-election

Directors standing for re-election:-

- (1) Mr Alex Tan Seng Keng
- (2) Mr Lee Boon Kok

Details of the above Directors who are standing for re-election are set out in the Directors' Profiles appearing on pages 11 and 12 of this Annual Report.



FORM OF PROXY

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

I/We NRIC No.
(Full Name in Capital Letters)

of
(Full Address)

being a member(s) of EXTOL MSC BHD (Company No.: 643683-U) hereby appoint
(Full Name in Capital Letters)

of
(Full Address)

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Fourth Annual General Meeting of the Company to be held at Pahlawan 7 & 8, Level 5, The Summit Hotel Subang USJ, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan on **Tuesday, 24 June 2008 at 10.30 a.m.** and at any adjournment thereof. The proxy is to vote in the manner indicated below, with an "X" in the appropriate spaces. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

NO.	RESOLUTIONS	FOR	AGAINST
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2007 and the Reports of Directors and Auditors thereon.		
2.	To re-elect Mr Alex Tan Seng Keng who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association.		
3.	To re-elect Mr Lee Boon Kok who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association.		
4.	To re-appoint Messrs C.K. Cheah & Co as Auditors of the Company for the financial year ending 30 September 2008 and to authorise the Directors to fix the Auditors' remuneration.		
5.	To approve the payment of Directors' Fees of RM61,200 for the financial year ended 31 December 2007.		
6.	To approve the payment of Directors' Fees of not more than RM90,000 per annum for the financial years subsequent to the financial year ended 31 December 2007.		
7.	Authority to Issue Shares.		
8.	To approve the Proposed Amendment.		

Signed this day of2008.

Number of shares held:-	
CDS account no.:-	
Telephone no. (during office hours):-	

Signature
Shareholder or Common Seal

Notes:-

- i. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead and the holder shall specify the proportion of his shareholding to be represented by each proxy; a proxy need not be a member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- ii. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of an officer or its attorney duly authorised.
- iii. The instrument appointing a proxy must be deposited at the registered office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting, i.e. on or before **10.30 a.m., Sunday, 22 June 2008.**



EXTOL MSC BERHAD (643683-U)

Tel: +603 8024 8166 Fax: +603 8024 6982

email: info@extolcorp.com

www.extolcorp.com