

## 4 BUSINESS OVERVIEW

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### 4.1 HISTORY

#### *Incorporation*

Grand-Flo was incorporated on 26 February 2003 in Malaysia as a private limited company under the Act with the name of Excellent Breakthrough Sdn Bhd. On 17 June 2003, the Company changed its name to Indigenous Solution Sdn Bhd. Subsequently, on 1 December 2003, the Company changed its name to Grand-Flo Solution Sdn Bhd. It was converted into a public limited company on 10 February 2004 and assumed its present name. On 14 May 2004, Grand-Flo was granted the MSC status by MDC. Pursuant to the MSC Status, the Company has submitted an application for the Pioneer Status under Section 4A of the Promotion of Investments (Amendment) Act 1986.

#### *History and Principal Activities*

The business operations of the Group originated from a division of GFESS, a company majority-owned by the Managing Director, Tan Bak Hong, in 1994, which was set up to distribute Auto-ID products. Recognising that there is a significant untapped potential for business processes of various industries in Malaysia be automated and after acquiring the domain knowledge and technical know-how in the field of Auto-ID, the business operations were expanded to provide bar code system solutions to its customers in various industries. As part of its bar code solutions services, the Group integrates the bar code system solutions with the customers' ERP systems such as SAP, Baan, JD Edward, Oracle and Solomon using middleware to provide critical information for management purposes ("Integration Solution Business").

In view of the expansion of the aforementioned business operations, GFES was incorporated in 1996 to take over the Integration Solution Business. At this stage, the founders of the Group believed that the Group should differentiate itself from its competitors and develop its own in-house proprietary solutions in the Auto-ID business to further enhance its earnings base. In this respect, the Group developed and launched its first customised in-house EDCCS solution "Asset Tracking System" in year 2001. The Group developed "Sales Force Automation" system in 2001 and it was successfully launched in 2002. Descriptions of the Asset Tracking System and Sales Force Automation are set out in Section 4.3.3.1 (A) and (B) of this Prospectus respectively.

Grand-Flo is principally engaged in the business of providing IT solutions and investment holding whilst its subsidiary companies are principally involved in the provision of integrated EDCCS solutions using bar coding and RF technologies.

The founders foresee that the RFID technology would be widely used in the future. Moving forward, the Group is gearing towards using the next generation of products in RFID technology. The Group will explore opportunities to further integrate the application of the said RFID technology into its EDCCS solutions.

The Group aims to be a leading EDCCS solutions provider in SEA, establishing itself in the local market initially, using Malaysia as the platform for future growth and expansion in the region including but not limited to the following countries:-

- (i) Thailand;
- (ii) Singapore;
- (iii) Indonesia;
- (iv) Vietnam; and
- (v) Philippines.

#### 4 BUSINESS OVERVIEW (Cont'd)

The Group's clients include companies in the manufacturing, FMCG, warehousing, logistics, government and healthcare industries, that usually employ ERP systems. The Group's business essentially provides customised integrated EDCCS solutions for automated data collection and collation to the aforementioned industries. The Group's business has been growing since its incorporation.

Users of the Group's solutions include established multi-national companies, local conglomerates and government bodies.

The Group's ability to continually develop new integrated EDCCS solutions and improve on its existing products in response to changes in technological development will be a key factor to good growth in revenue. The Group is moving towards becoming a multi-solution company offering a wide range of integrated EDCCS solutions.

##### *New Foreign Ventures*

Grand-Flo has incorporated a 51.0% owned subsidiary company in Singapore, i.e. GFS on 11 March 2004 which commenced operations on 15 March 2004. In addition, Grand-Flo also intends to acquire a substantial equity interest in a company in Thailand. The incorporation of the foreign subsidiary and the intentions to acquire a company in Thailand are part of the strategy of the Group to be a leading EDCCS solutions provider in SEA.

In this respect, the Grand-Flo Group consists of Grand-Flo and the following subsidiary companies:-

Name of company	Date and place of incorporation	Equity interest (%)	Paid-up share capital as at 27 September 2004	Principal Activities
GFES	3 January 1996 Malaysia	100.0	RM500,000	Provision of integrated EDCCS solutions
GFS	11 March 2004 Singapore	51.0	SGD50,000	Provision of integrated EDCCS solutions

#### 4.1.1 Restructuring and Listing Scheme

As an integral part of the Listing, the Company undertook a restructuring exercise that was approved by the SC and Bursa Securities on 20 August 2004 and 23 August 2004 respectively. The restructuring exercise involved the following steps:-

##### 4.1.1.1 Dividend Payment

GFES declared a net interim dividend amounting to RM817,287 to the shareholders of GFES for the financial period ended 30 June 2004 on 16 September 2004. The dividend was paid out of the retained earnings of GFES on 27 September 2004 ("Dividend Payment").

##### 4.1.1.2 Acquisition of GFES

Pursuant to a conditional SPA dated 11 February 2004 as supplemented by a supplemental SPA dated 20 September 2004 between Grand-Flo and the shareholders of GFES, Grand-Flo has acquired 500,000 ordinary shares of RM1.00 each in GFES, representing 100.0% of the issued and paid-up share capital of GFES for a purchase consideration of RM2,815,993 satisfied entirely by the issuance of 28,159,930 Grand-Flo Shares at an issue price of RM0.10 per share credited as fully paid up ("Acquisition of GFES").

#### 4 BUSINESS OVERVIEW (Cont'd)

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The purchase consideration was arrived at on a willing-buyer willing seller basis after taking into consideration the NTA of GFES as at 31 December 2003 of RM2,815,993.

Upon completion of the Acquisition of GFES, the issued and paid-up share capital of Grand-Flo increased from RM2 comprising 20 Grand-Flo Shares to RM2,815,995 comprising 28,159,950 Grand-Flo Shares credited as fully paid-up.

The Acquisition was completed on 1 October 2004.

##### 4.1.1.3 Subscription

Upon completion of the Acquisition of GFES, Grand-Flo will undertake an issuance of a total of 6,840,050 new Grand-Flo Shares by way of cash subscription at par to the Interested Subscribers. The shares to be issued pursuant to the Subscription will rank *pari passu* in all respects with the then existing shares of Grand-Flo.

Upon completion of the Subscription, the issued and paid-up share capital of Grand-Flo will increase from RM2,815,995 comprising 28,159,950 Grand-Flo Shares to RM3,500,000 comprising 35,000,000 Grand-Flo Shares credited as fully paid-up.

##### 4.1.1.4 Public Issue

In conjunction with the Listing, Grand-Flo will issue 15,000,000 new Grand-Flo Shares at an issue price of RM0.50 per share to individuals, companies, societies, co-operatives and institutions by way of private placement and public offer, subject to the terms and conditions of this Prospectus.

Upon completion of the Public Issue, the issued and paid-up share capital of Grand-Flo will increase from RM3,500,000 comprising 35,000,000 Grand-Flo Shares to RM5,000,000 comprising 50,000,000 Grand-Flo Shares credited as fully paid-up.

##### 4.1.1.5 Listing and Quotation on MESDAQ Market

Upon completion of the Public Issue, the entire issued and paid-up share capital of Grand-Flo of RM5,000,000 comprising 50,000,000 Grand-Flo Shares will be listed on the MESDAQ Market.

##### 4.1.1.6 ESOS

In conjunction with the Listing, Grand-Flo proposes to implement an ESOS involving up to 5% of Grand-Flo's issued and paid-up share capital at any one time during the duration of the ESOS, to be issued pursuant to the options to be granted under the ESOS to executive directors and eligible employees of the Group in accordance with the By-Laws of the ESOS.

Prior to the date of Listing, 2,500,000 options are proposed to be offered to the executive directors and eligible employees of Grand-Flo Group at the exercise price of the Issue Price.

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The salient terms of the ESOS are, amongst others:-

- (a) The aggregate number of Options exercised and Options offered and to be offered under the Scheme shall not exceed the aggregate of five per centum (5%) of the issued and paid-up ordinary share capital of the Company at any one time during the duration of the Scheme and further, the following shall be complied with:-
    - (aa) Not more than fifty per centum (50%) of the Grand-Flo Shares available under the Scheme shall be allocated, in aggregate, to directors and senior management; and
    - (bb) Not more than ten per centum (10%) of the total number of Grand-Flo Shares available under the Scheme shall be allocated to executive directors and eligible employees who either singly or collectively through persons connected with the executive directors and eligible employees hold twenty per centum (20%) or more of the issued and paid-up share capital of the Company.
  - (b) The subscription price of each Grand-Flo Share comprised in an option shall be as follows:-
    - (aa) In respect of any offer which is made in conjunction with the Company's listing on the MESDAQ Market, the initial public offer price; and
    - (bb) In respect of any offer which is made subsequent to the Company's listing on the MESDAQ Market:-
      - (aaa) the weighted average market price of the Grand-Flo Shares for the five (5) Market Days immediately preceding the date of offer with a discount of not more than ten per centum (10%); and
      - (bbb) the price so determined shall not be less than the par value of the Grand-Flo Shares;
- or at a subscription price in accordance with any guidelines, rules and regulations of the relevant authorities governing the Scheme at the time of the offer.
- (c) The new Grand-Flo Shares to be allotted upon the exercise of any Options will, upon allotment and issue, rank pari passu in all respects with the existing issued and paid-up Grand-Flo Shares of the Company, except that the new Grand-Flo Shares will not be entitled to any dividends, rights, allotments or other distributions, the entitlement date of which is prior to the date of allotment of the said Grand-Flo Shares. The new Grand-Flo Shares will be subject to all the provisions of the Articles of Association of the Company.
  - (d) The Scheme shall come into force on the Effective Date, i.e. the date of full compliance with all relevant requirements pursuant to the Listing Requirements, including but not limited to the following:-
    - (aa) submission of the final copy of the By-Laws of the Scheme to Bursa Securities;

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- (bb) receipt of approval-in-principle for the listing of the shares to be issued under the Scheme from Bursa Securities;
- (cc) procurement of shareholders' approval for the Scheme;
- (dd) receipt of approval of any other relevant authorities, where applicable; and
- (ee) fulfillment of all conditions attached to the above approvals, if any.

The Scheme shall be in force for a duration of five (5) years from the Effective Date subject however to any extension for a further period of up to five (5) years at the discretion of the Board upon the recommendation of the Option Committee.

Please refer to Section 15 of this Prospectus for details on eligibility and the maximum allocation of Options to be granted to executive directors and eligible employees.

#### 4.2 SHARE CAPITAL

As at the date of this Prospectus, the authorised share capital of Grand-Flo is RM10,000,000 comprising 100,000,000 Grand-Flo Shares whilst the issued and paid-up share capital of Grand-Flo is RM2,815,995 comprising 28,159,950 Grand-Flo Shares credited as fully paid-up. Upon completion of the Subscription and Public Issue, the issued and paid-up share capital of the Company will increase to RM5,000,000 comprising 50,000,000 Grand-Flo Shares credited as fully paid-up.

Details of the changes in the issued and paid-up share capital of the Company since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of ordinary shares allotted</b>	<b>Par value (RM)</b>	<b>Consideration</b>	<b>Resultant number of issued and paid-up shares</b>	<b>Total issued and paid-up share capital (cumulative) (RM)</b>
26.02.03	2	1.00	Subscribers' shares	2	2
05.01.04	-	0.10	Subdivision of RM1.00 par value shares to RM0.10 par value shares	20	2
01.10.04	28,159,930	0.10	Issued pursuant to Acquisition of GFES	28,159,950	2,815,995

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## 4 BUSINESS OVERVIEW (Cont'd)

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### 4.3 BUSINESS OVERVIEW

#### 4.3.1 Overview

The history of the business of the Group goes back to 1996 when two of the Promoters, Tan Bak Hong and Tan Bak Leng, founded the integrated EDCCS solutions business under GFES. The founders noted that business processes of various industries in Malaysia were heavily dependent upon manual data collection system, which cannot produce critical data on time and which are laborious and error prone to operate. With their business knowledge in the area, the founders envisioned the promising potential for the EDCCS solutions business in Malaysia to increase efficiency of organisations. In summary, the founders recognised that there is a significant untapped potential for the automation of business processes of various industries in Malaysia.

The Group's integrated EDCCS systems can be integrated with and complement the ERP systems such as SAP, Baan, JD Edward, Oracle and Solomon and other leading enterprise systems by providing real time information and increased data accuracy. In summary, the integrated EDCCS solutions of the Group provides the following benefits to its customers:-

- (a) The customers can make better-informed decisions based on up to date accurate information on inventories and resources, and enable them to streamline operations for better use of time, people, inventory and resources. The system improves efficiency and reduces paperwork giving the companies the ability to improve efficiency and increase output; and
- (b) It gets ERP systems out of historical data mode and into real-time mode i.e. unlocks the full benefits of ERP systems.

The Group has since evolved into a total solution provider in the EDCCS solutions industry.

Auto-ID hardware such as bar code and RFID reading equipment, hand-held computers and RF data communications systems are frequently included in the Group's integrated EDCCS solutions. These equipments are used for front-end data capture transaction systems in assets logistics, distribution and transportation, factory automation and other applications. Currently, the Group has been appointed as authorized distributor for various leading Auto-ID suppliers, which include Intermec Technologies Corporation and Handheld Products Inc. (formerly known as Welch Allyn). RFID has been considered a forward-looking technology. It is attracting considerable attention as a complement to bar code lately because of the significant range, speed and unattended reading advantages it provides. Please refer to Section 4.3.16.1 for more details on RFID.

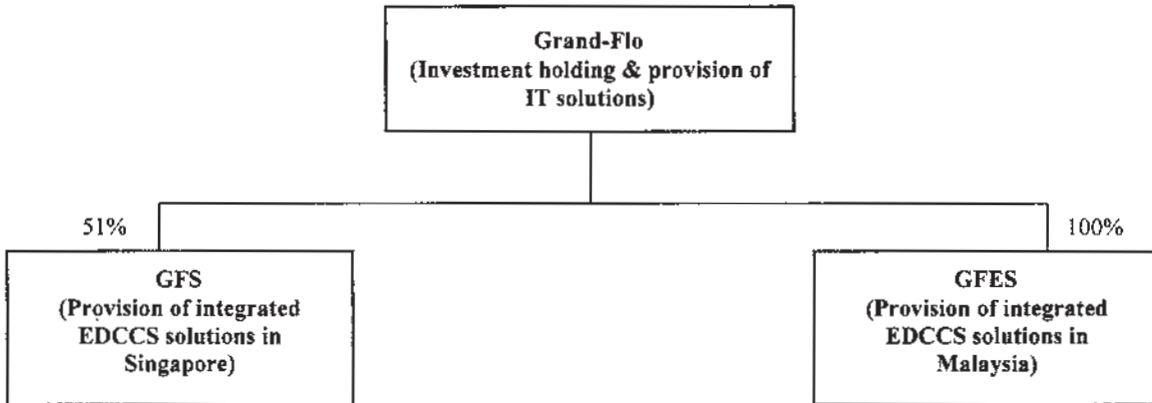
The Group's intent to continually develop new integrated EDCCS solutions and improve on its existing solutions is in response to changes in technological development. The successful roll out of new integrated EDCCS solutions will be a key factor to good growth in earnings in future. The Group is moving towards becoming a multi-solution company offering a wide range of integrated EDCCS solutions.

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**4 BUSINESS OVERVIEW (Cont'd)**

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The business divisions of the Group are as follows:-



**4.3.2 Operating Mechanisms**

The Group's focused mission has enabled its resources to be channeled better and more efficiently utilised since its incorporation. The Group concentrates on understanding the EDCCS solutions industry fully and as such, has prompted the Grand-Flo Group to be sensitive to changes in the industry to remain competitive.

The Group's awareness of the industry trend has translated the Group's knowledge into business plans, product development plans and marketing strategies including the following business processes:-

- (i) Preliminary initiation of conceptualisation of new products;
- (ii) Formulation of product development plans;
- (iii) Testing of new products; and
- (iv) Launching of new products.

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**4 BUSINESS OVERVIEW (Cont'd)**

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**4.3.3 Products and Services**

The business operations of the Group originated from distribution of Auto-ID products, which includes providing customized integration software to enable interfacing of customers' ERP solutions to the Group's Auto ID hardware. The business operations were expanded to provide in-house integrated solutions to its customers using bar code, i.e. integration of the bar code system solutions with the customers' ERP systems such as SAP, Baan, JD Edward, Oracle and Solomon using customized middleware, to provide critical information for management purposes ("Integration Solution Business"). This business has contributed substantially to the Group's revenue since commencement. Certain software, middleware and hardware employed by the Group in the Integration Solution Business are sourced from 3<sup>rd</sup> party and majority of hardware are imported from overseas.

The founders of the Group believed that the Group should differentiate itself from its competitors and develop its own in-house proprietary solutions in the Auto-ID business to further enhance its earnings base. In this respect, the Group developed and launched its first customised in-house EDCCS solution "Asset Tracking System" in 2001. Asset Tracking System was successfully launched in year 2001. The Group developed Sales Force Automation System in 2001 and it was successfully launched in 2002.

The Group's intent to continually develop new integrated EDCCS solutions and improve on its existing solutions is in response to changes in technological development. The Group is moving towards becoming a multi-solution company offering a wide range of integrated EDCCS solutions.

The Group's in-house developed solutions are as follows:-

**4.3.3.1 Existing**

**(A) Asset Tracking System**

In 2001, the Group developed its in-house proprietary Asset Tracking System, which can be sold on a stand-alone basis and/or integrated with ERP systems. It automates asset tracking by using mainly bar code system. Asset Tracking System allows users to create and maintain assets records, which in turn keep track of the flow, movement and status of the assets.

Asset Tracking System is usually integrated with ERP systems of the customers such as SAP, Baan, JD Edward, Oracle and Solomon using middleware to provide the management with critical information on asset tracking for decisions making. In this respect, the Group works with ERP software providers to provide combined solutions.

Asset Tracking System offers a comprehensive solution for management and control of various types of assets and can be customised based on customers' specific requirements.

*Core features of Asset Tracking System*

The core features of the Asset Tracking System are as follows:-

- (i) Create, edit or delete an inventory;
- (ii) Search and view assets;
- (iii) Report generation and printing;
- (iv) Barcode label printing;
- (v) Merge asset records;



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- (vi) Maintenance; and
- (vii) Users administration.

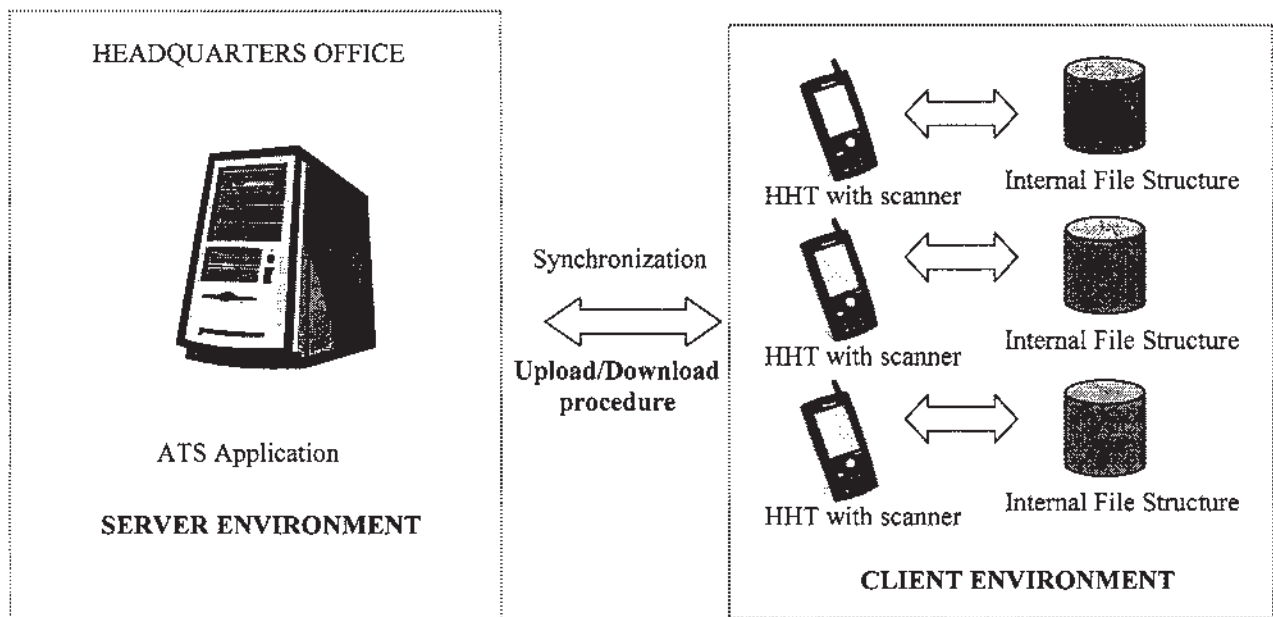
The existing Asset Tracking System is suitable for small/medium enterprises, which need to manage their assets or inventories effectively without complication. It was designed with simplicity in mind and it provides all the essential features for effective asset tracking and monitoring.

*Key benefits of Asset Tracking System*

The key benefits of Asset Tracking System are as follows:-

- Cost saving – paperless and less resources required. Greatly minimizes chances of asset duplication and losses.
- Time saving – all inventory can be tracked easily within a short time frame.
- Increase productivity – saved time can be used for other productive activities.
- Better control of valuable assets, their locations and condition.
- Efficient management of assets and resources.
- Better future assets planning and tracking especially for asset and inventory accounting purposes.
- Increase business operation efficiency.

*System Architecture*



Asset Tracking System server is the master data consolidation of the system. Asset Tracking System user can generate handheld terminal (“HHT”) file to be downloaded into the HHT with scanner. Scanned data is updated in the internal HHT file structure. When completed, the data will be uploaded back to the master database in the server for consolidation purposes.

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(B) Sales Force Automation System

In 2002, the Group developed its in-house proprietary Sales Force Automation system under the brandname "M-Solution". It is an end-to-end mobile application that automates field activities of mobile sales representatives. It helps to enhance the efficiency and productivity of sales representatives and enables them to focus more on handling customers' requests and strategize market development activities.

This software is used to automate the sales force process. The automation is done by using a Personal Digital Assistant ("PDA") devices to collect all information electronically and through automation of processes will lead towards a paperless environment and increased efficiency in the business systems.

Via Sales Force Automation system, a company can send sales route, customer and order related information through batch or wireless data networks (e.g. GPRS) to mobile sales representatives who are equipped with mobile devices. Following their route, these mobile workers will transact with customers in the field, capturing orders, delivering goods or collecting market information. Subsequently, the company will send new sales and order related information back to the Sales Force Automation system server, using batch or wireless data communication, for further processing at the company's backend ERP system.

Sales Force Automation system is targeted at FMCG, pharmaceutical and distribution industries. The application is compatible with industry-leading rugged or non-rugged mobile devices, operating systems and wireless data networks. It can be easily integrated with major ERP system such as SAP, Baan, JD Edward, Oracle and Solomon. Sales Force Automation system is scalable supporting small operations as well as large.

The current M-solution supports the marketing or sales personnel at all stages of selling processes including:-

- (i) presales activity;
- (ii) order-taking;
- (iii) product or service delivery; and
- (iv) billing and collection,

all can be achieved within a single mobile device.

Other features of the Sales Force Automation system include:-

- **Smart Inventory Monitor** – a facility that keep track of the customer inventory level for products or materials. It analyses the rate and pattern of stock usage thereby able to suggest when and determine how much the next order quantity to replenish the stock.
- **Price Watch** – enables the sales personnel to record and analyze prices of similar competitor products in the market. Therefore a company can offer better product positioning in the market.
- **Message broadcast** – this feature connects various parties for effective communications. The marketing representative retrieves messages from the marketing coordinator or office for instructions and comments. With the same way, he/she can send messages to other parties. As the result, paper work is reduced, thus more time and resources can be saved and mistakes and miscommunication can be reduced.

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The data collected in the mobile device will then be uploaded and processed at the backend office system. Marketing representative, Marketing Coordinator, Manager etc can then generate various reports (i.e. daily sales summary reports, detail transactions, sales analysis etc) or performs queries using the system base on their login roles.

*Key benefits of Sales Force Automation*

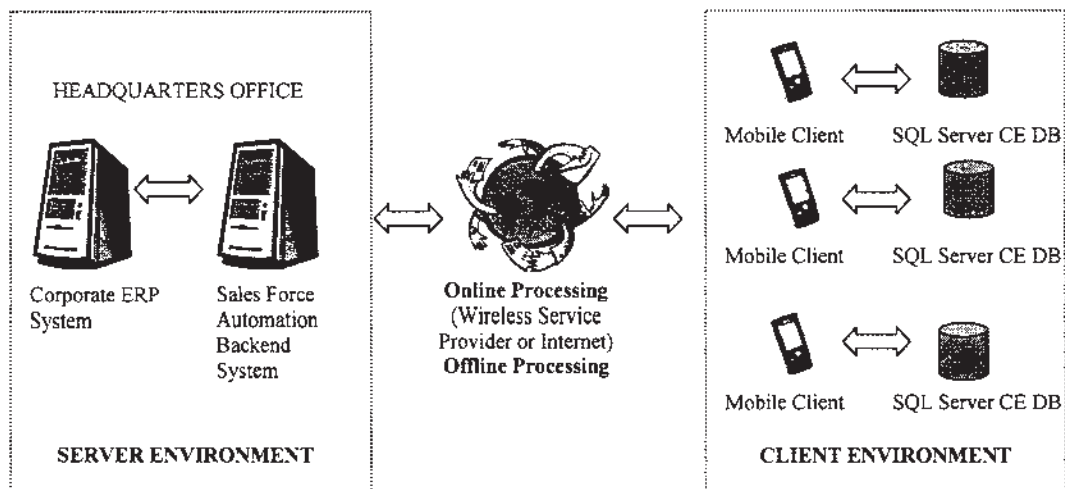
By using Sales Force Automation, business can achieve the following benefits:-

- Cost saving – paperless and less resource;
- Time saving;
- Increase productivity – customer visits per day increase;
- Better control of sales personnel’s activities – all their tasks and workflow are defined in the mobile device;
- Inventory level accuracy and on time replenishment;
- More time for other important activities like handling customer’s complain and strategize market development activities;
- Customer satisfaction;
- Increase business efficiency;
- The solution is a must for business that wish to implement Just In Time (JIT) manufacturing where the information for the whole supply chain management needs to be captured and processed efficiently and accurately within a short timeframe; and
- Source of information for better market positioning and planning.

The current Sales Force Automation system is divided into client and server applications. Client application will be installed in mobile or hand-held devices with SQL Server CE as internal database engine. At the server, the Sales Force Automation backend system will be the middleware between mobile device and enterprise ERP system. The information stored in the device can be uploaded to the Sales Force Automation backend either online or offline via batch processing.

User can access the Sales Force Automation database and generate reports through the Sales Force Automation backend-systems. At this terminal also user can consolidate and generate data files with specific format to be integrated into the enterprise ERP system.

*System Architecture*



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##### 4.3.3.2 Future Product and Services

The product development and enhancement plans of the Group for the near future will include the following:-

- (i) enhancing existing in-house solutions, i.e. Asset Tracking System and Sales Force Automation to better address different business needs and requirements in different industries and organization sizes. The enhancement, amongst others, are:-
  - to enable the solutions to be configured and customized easily within a shorter timeframe at lower and affordable cost;
  - to achieve higher scalability and flexibility; and
  - to achieve stronger system support to most of the common communication network and technologies;
- (ii) developing new solutions to enhance the Group's revenues and to keep abreast of competitors. These new solutions will focus on improvement in business processes, i.e. enabling organization to manage its key business functions more effectively in particular the management of inventory, warehousing and manufacturing processes.

##### 4.3.4 Market Coverage, Position and Share

The Group's clients include companies in the manufacturing, FMCG, warehousing, logistics, government and healthcare industries, that usually employ ERP systems. The Group's business essentially provides customised integrated EDCCS solutions for automated data collection and collation to the aforementioned industries.

The Group aims to be a leading EDCCS solutions provider in SEA, establishing itself in the local market initially, using Malaysia as the platform for future growth and expansion in the region including but not limited to the following countries:-

- (i) Thailand;
- (ii) Singapore;
- (iii) Indonesia;
- (iv) Vietnam; and
- (v) Philippines.

To the best knowledge of the Directors, there are not many major players in the EDCCS solutions market in Malaysia. Among the major players, only a few (including Grand-Flo) have their own in-house developed EDCCS solutions whilst the remaining players are solely distributing Auto-ID devices and do not provide a total EDCCS solution package.

In addition, Grand-Flo mainly focuses on marketing its solutions/products to manufacturing, FMCG, warehousing, logistics, government and healthcare industries, whereas the other major players focuses more on retailers, FMCG and government bodies. Grand-Flo also intends to market and promote its solutions/products, which are RFID- and bar code- enabled in the SEA. As such, the Directors believe that the Group is well poised to capitalise on the abovementioned opportunities. Please refer to Section 5.5 for more details.

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##### 4.3.5 Modes of Marketing and Distribution and Marketing Strategy

The solutions the Group developed are IT related and are geared towards improvement in productivity and efficiency of its customers' businesses. From the initial marketing effort, it was realized that for a company to succeed in EDCCS solutions, the company must have in-depth domain knowledge of the functions and operations of various business processes of the key industries in which the Group focuses on. These industries include, inter-alia, the manufacturing, FMCG, warehousing, logistics, government and healthcare industries. With this in mind, the Group's strategy is not just to deliver IT solutions, but also to provide value-added services, which enable customers to realize the full benefits of the solutions delivered. In short, the strategy employed is the provision of knowledge-based total solutions and not just product-based.

The IT industry is characterised by rapid changes in technology and frequent introduction of new and more advanced products and services, changes in client demands and evolving industry standards. Hence, the Group would need to keep abreast of the latest technologies in order to maintain its competitive edge in the EDCCS solutions market. Towards this end, the Grand-Flo Group has the following marketing strategies to achieve growth in sales:-

###### (a) Promotional activities

To create awareness and elevate the Grand-Flo Group's profile, the Group will participate in national trade shows. Seminars will be carried out on a regular basis.

The Grand-Flo Group will also advertise in relevant circulated trade magazines. Attempts will be made to publish press releases and technical articles in such magazines as well. The trade magazines include Yellow Pages, Buying Guide, E Guide -- Internet Advertisement and Star Intech.

In addition, the Group's website will be constantly updated to present accurate information on the company, its products and services. The marketing materials the Group employs will be printed in various languages.

###### (b) Maintain existing end-user base

In order to maintain the existing end-user base, the Grand-Flo Group focuses on the following:-

###### (i) After sales customer service and maintenance strategy

Currently, the Group provides 90 days warranty (software) and one (1) year warranty (hardware) after the delivery of the system at client's site. Thereafter, the Group will only provide maintenance of the system upon the request of the clients i.e. on an ad hoc basis.

The Group also provides many types of maintenance service contracts that are tailored to suit individual customer's needs, e.g premier maintenance programs that include 24x7, hot swap, special help desk, etc. The Group is continuing to encourage its customers to subscribe for the Group's existing after sales services, i.e. trouble-shooting and maintenance of the EDCCS solutions. Based on the experience of the senior management of the Group, clients are generally receptive to the use of annual maintenance services. This is to ensure smooth running of their operations.

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**(ii) Positioning as a technology solution provider**

The Group positions itself as a technology solution provider to the industries in which it operates. Currently, the Group's products are RFID- and bar code- enabled. Moving forward, the Group is gearing towards using the next generation of products in RFID technology and will embark on efforts to promote RFID technology application in the SEA. In addition, the Group intends to strengthen its position further by developing more IT solutions (please refer to Section 4.3.3.2 of this Prospectus for the Group's product development plan).

**(iii) Strong customer relationship**

Premised on the Group's assurance in quality products delivery, the Group has established strong customer relationship with customers, especially MNCs of which the Group sells and promotes its existing and new products to. This strong customer base has provided the Group a platform to secure new and potential customers as these customers have been making referrals to the Group's products. In addition, the Group has been receiving recurrent orders from its existing customers.

**(c) New overseas markets**

The Group aims to be a leading integrated EDCCS solutions provider in SEA, establishing itself in the local market initially, using Malaysia as the platform for future growth and expansion in the region including but not limited to Thailand, Singapore, Indonesia, Vietnam and Philippines.

The Group will explore various options to decide on the forms of its presence in new overseas markets. The efforts to establish presence in new overseas markets of the Group may include, inter-alia, the following:-

- (i) Setting up of subsidiary;
- (ii) Acquisition of equity interest in a foreign company;
- (iii) Appointment of authorised distributor/reseller; or
- (iv) Network with the distributor and business software consultants or principals.

In respect of the above, Grand-Flo has incorporated a 51.0% owned subsidiary company in Singapore, i.e. GFS on 11 March 2004 which commenced operation on 15 March 2004. In addition, Grand-Flo also intends to acquire a substantial equity interest in a company in Thailand. As a large number of regional offices of global companies are located in Singapore, the setting up of GFS is expected to give the Group a head start in securing projects that involve regional roll-outs in SEA, particularly in Malaysia and Thailand.

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**4.3.6 Principal Assets and Principal Place of Business**

The Company's operations and principal assets are currently situated at its headquarters at Lot 4, Jalan SS13/4, 47500 Subang Jaya, Selangor Darul Ehsan. In addition, the Group has a branch office in Penang at No. 92, (Ground & 1st Floor) Persiaran Bayan Indah, Bayan Bay, 11900 Penang. The Group recently acquired properties located at No.s 3-1, 3-2, 3-3, 3-4, & 3-5, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor and will shift to the new premise in due course. Details on the properties owned by the Group are set out in Section 11.1 of this Prospectus.

**4.3.7 Operating Capacities and Output**

As the Group is involved in EDCCS solutions, its operating capacity is determined by the number and experiences of the skilled IT employees that it has. As such, the Company constantly monitors the requirements of its IT employees in respect of their competency, skills and intuition to ensure that contracts secured could be delivered to customers as scheduled. To-date, the Company has neither encountered any constraints in operating capacity nor has it encountered any difficulty in increasing its headcount to meet an increase in contracts.

**4.3.8 Quality Control Procedures**

EDCCS solution development constitutes significant portion of R&D activities in Grand-Flo Group. It is therefore critical to ensure that the whole development cycle is managed properly with quality concept built into the process.

The Group's quality control processes and procedures are encapsulated in the whole software development life cycle including system analysis, design, development, testing and implementation phases. This methodology is adopted from Rational Unified Process (RUP), which is a software engineering process. RUP provides a disciplined approach to assigning tasks and responsibilities within a development organization. Its goal is to ensure the production of high-quality software that meets the needs of its end users within a predictable schedule and budget.

The Group also has adopted and built a proper documentation base for its R&D activities, i.e. documentation template, requirement and design specification, programming guide, coding template, database design standard, testing procedure, performance requirement and stress test, etc. Source codes and products are secured and backed up within a common repository with access and change control.

In order to deliver consistent quality to its customers, the Group ensures that training and improvement on personnel skills is carried out amongst its R&D team.

**4.3.9 R&D**

The Board of Grand-Flo believes that:-

- (i) R&D is crucial to the Group becoming a leading integrated EDCCS solutions provider in SEA; and
- (ii) the possession of strong R&D capabilities is important to the Group's continued success and its ability to develop new integrated EDCCS solutions and to improve on its existing products in response to changes in technological development.

4 **BUSINESS OVERVIEW (Cont'd)**

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Prior to the R&D of a solution, Grand-Flo will obtain user requirements and feedback from the existing and potential customers. With such market research information, the Group would then formulate a product development plan.

The Group's R&D team as at 27 September 2004 comprises 8 personnel (excluding the Managing Director and Executive Director, i.e. Tan Bak Hong and Moi Ming Huei) and is headed by Ismail Azizi, the Project Manager. The R&D team consists of experienced and qualified Systems Consultants of various experiences and strengths. The profiles of the two Directors and certain key R&D personnel are included in Sections 8.2(ii) and 8.4(i) of this Prospectus. The R&D team is experienced in analysis, programming, and testing. The R&D team of the Group currently utilises software development tools such as Visual Basic 6.0, Visual C++, Visual C#, Visual Studio.net., 6.0 Microsoft SQL Server 2000, Sybase Adaptive Server 8.0, MySQL, XML and JAVA, Foxpro and Crystal Report.

The Group has spent an estimated total of RM410,000 in R&D expenses over the past five (5) years to 31 December 2003. The Group is expected to incur a total of RM1 million on R&D expenses in the FYE 31 December 2004, 2005 and 2006. The Board of Grand-Flo envisages that the investment in R&D will fuel the Group's development of new products in the coming years and that R&D will continue to be an essential focus of the Group in the future.

The key R&D strategies of the Grand-Flo Group are as follows:-

**(i) Increase R&D manpower, training and resources**

The Grand-Flo Group intends to employ additional experienced R&D personnel. This would enable the Grand-Flo Group to further enhance its ability to develop new products and shorten the product development cycle and hence increases the speed of introducing a product to market. Continuous staff training and development would be emphasised to update the technical knowledge of employees.

**(ii) Development and application of technologies**

The IT industry is characterised by rapid changes in technology and frequent introduction of new and more advanced products and services, changes in client demands and evolving industry standards. Hence, the Group would need to keep abreast of the latest technologies in order to maintain its competitive edge in the EDCCS solutions market. Recognising this, the Company's R&D team constantly keeps abreast of new technologies and market trends wherein the business development team works closely with the R&D team to provide feedback on market trends and client requirements.

The founders foresee that the RFID technology would be widely used in the future. Moving forward, the Group is gearing towards using the next generation of products in RFID technology.

**(iii) Collaborating with the consultants of ERP software providers and forming strategic alliances**

The Company plans to collaborate with more consultants of ERP Software providers to tap into companies, which require the use of the Group's products. To-date, the Group has collaborated with several consultants of leading ERP software providers.

Alternatively, the Group will also form strategic alliances (such as in the area of R&D) with other companies.



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**4 BUSINESS OVERVIEW (Cont'd)**


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**4.3.10 Interruptions in the Business During The Past Twelve (12) Months**

There has been no interruption to the Group's business or operations in the past twelve (12) months.

**4.3.11 Employees**

As at 27 September 2004, the Group has 38 staff employed in the following capacity:-

<b>Department</b>	<b>Number of employees</b>	<b>Average years of service</b>
Directors	4	>6
R&D	8	2
Technical Support	9	3
Business Development	9	2
Finance, HR & Administration	8	4
	38	

With sufficient funds raised from the Public Issue, the Company will be able to strengthen the management team and increase the number of skilled and knowledge workers employed by the Group, as well as its expenditure for R&D activities.

The Group currently provides staff training via in-house training sessions and on-the-job training. The management of the Group believes that staff development is crucial and therefore, employees of the R&D department are exposed to various R&D functions in order to ensure that they are adequately acquainted with the Company's R&D and product implementation processes. Promotions are usually within the Group and the Company will train junior managers to become middle and top management by giving them the opportunity to accept more responsibilities.

The employees of the Group do not belong to any labour union and enjoy a cordial relationship with the management. There is and has been no labour or industrial dispute between the employees and the management.

**4.3.12 Key Milestones**

<b><u>Year</u></b>	<b><u>Events</u></b>
1996	<ul style="list-style-type: none"> <li>• Recognising the significant untapped potential for business processes of various industries in Malaysia be automated, the founders of the Group, Tan Bak Hong and Tan Bak Leng, established GFES.</li> <li>• GFES commenced operations in January 1996.</li> <li>• Appointed as an Authorized Distributor of Intermec Technologies Corporation for Auto-ID products.</li> </ul>
1998	<ul style="list-style-type: none"> <li>• Implemented EDCCS solution with SAP ERP system for a MNC.</li> <li>• Appointed as an Authorized Distributor of HandHeld Products Inc. (formerly known as Welch Allyn) for Auto-ID products.</li> <li>• Best Sales Performance award from Intermec Technologies Corporation in SEA for Auto-ID products.</li> </ul>

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**4 BUSINESS OVERVIEW (Cont'd)**

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<u>Year</u>	<u>Events</u>
1999	<ul style="list-style-type: none"> <li>• Implemented RF integration into ERP system of a MNC.</li> </ul>
2000	<ul style="list-style-type: none"> <li>• Provided RF cycle-count solution for a MNC.</li> <li>• Implemented RF integration into customer Warehouse Management System of a MNC.</li> <li>• Appointed as an Authorized Distributor of Sky Technologies, SAP R/3 Integration Solution provider.</li> </ul>
2001	<ul style="list-style-type: none"> <li>• Launching and commercialization of Asset Tracking System.</li> <li>• Implemented Asset Tracking System for a financial institution.</li> <li>• Launching and commercialization of Sales Force Automation system for a FMCG.</li> </ul>
2002	<ul style="list-style-type: none"> <li>• JD Edwards integration in Asset Tracking System for a FMCG.</li> <li>• Excellent Sales Performer for HandHeld Products Inc. in SEA for Auto-ID products.</li> <li>• Appointed International Gold Medallion Partner by Intermec Technologies Corporation.</li> </ul>
2003	<ul style="list-style-type: none"> <li>• SAP integration in Inventory Management for a utility corporation.</li> <li>• SAP integration in Sales Force Automation and Asset Tracking System for FMCG.</li> <li>• Implemented Sales Force Automation for a book publisher.</li> <li>• Grand-Flo was incorporated on 26 February 2003.</li> <li>• Appointed as a reseller for Swisslog, a warehouse management system solutions provider.</li> <li>• Appointed as a reseller / implementation partner of Newspaper Pte Ltd for its mobile solution.</li> </ul>
2004	<ul style="list-style-type: none"> <li>• Implemented Sales Force Automation for a pharmaceutical corporation.</li> <li>• GFS was incorporated as a 51.0% owned subsidiary on 11 March 2004 to tap into the Singapore market.</li> <li>• Granted MSC Status by MDC.</li> </ul>

**4.3.13 Exceptional factors affecting the business**

Save for the risk factors highlighted in Section 3 of this Prospectus, the Company does not foresee any exceptional factors, which may affect its business.

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**4 BUSINESS OVERVIEW (Cont'd)**


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**4.3.14 Major Customers**

As at 30 June 2004, the major customers of the Grand-Flo Group (i.e. top ten (10) or those contributing 10% or more to the Group's revenue) are as follows:-

	% of revenue	Length of relationship (years)
TSI Resources Sdn Bhd (for Tenaga Nasional Berhad)	15.72	1
Western Digital (M) Sdn Bhd	13.81	> 5
Solectron Technology Sdn Bhd	7.40	> 5
Jabil Circuit Sdn Bhd	5.49	> 5
Mexter (M) Sdn Bhd	2.18	3
Western Digital (Thailand) Company Ltd	1.93	1
Clapper Technology Sdn Bhd	1.88	1
Carsem (M) Sdn Bhd	1.88	> 5
F & N Coca-Cola (M) Sdn Bhd	1.87	3
SCS Computer Systems Sdn Bhd	1.85	2

The Grand-Flo Group does not depend on any single customer. The Grand-Flo Group has been able to secure new customers and some of its existing customers have been making referrals to the Group. Notwithstanding the above, any new products to be launched by the Group are expected to be promoted to the existing customers.

**4.3.15 Major Suppliers**

As at 30 June 2004, the major suppliers of the Grand-Flo Group (i.e. top ten (10) or those contributing 10% or more to the Group's purchases) are as follows:-

	% of purchases	Length of relationship (years)
Intermec Technologies Corporation	43.13	> 5
HandHeld Products Inc	22.31	> 5
Identities Systems Sdn Bhd	9.66	> 5
Sinarmore Marketing Sdn Bhd	8.12	> 5
Exac Consulting Sdn Bhd	3.16	1
Loftware Inc	2.46	> 5
Autopack Pte Ltd	1.78	> 5
Accu-Sort Asia Pacific Pte Ltd	1.54	3
Intermec Technologies Corporation (Ohio)	0.74	> 5
Winsem Labelgraphic Enterprise	0.69	3

The Group has no dependency on any of its major suppliers since the hardware and software for the development of its solutions are readily available and easily sourced from other suppliers and/or authorized distributors. In addition, the Group has been maintaining excellent relationship with its major suppliers.

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4 BUSINESS OVERVIEW (Cont'd)

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**4.3.16 Technology**

The technology development history of Grand-Flo can be summarised in the following chronological orders:-

- (i) Simple data collection application using DOS/Text-based OS which can be done by batch application only;
- (ii) Advance data collection application using Windows OS which can be done by batch or wireless/real-time application;
- (iii) Collation of data collected using latest Windows open system as Grand-Flo's R&D platform which can be customised to requirements of vertical industries;
- (iv) One-stop solution that can provide system study/consultancy, software, hardware, middleware, testing and application training, inclusive of system support and maintenance contracts; and
- (v) R&D towards RFID application in Auto ID.

The Group currently uses the latest technology platforms in the market for both software and hardware in the development of its in-house solutions. The development tools used by the Company are compatible with most of the world leading ERP softwares. These ensure the solutions developed by the Company be integrated with internal and/or external ERP software via bar coding and RF technologies. Going forward, the Company is gearing towards using the next generation of products in RFID technology.

The Group's EDCCS solutions can be on a stand-alone basis and/or integrated with ERP softwares using bar coding and RF technologies.

The software (mainly on Microsoft development tools) and hardware technologies used by the Company are as follows:-

***Software technology***

- (i) Microsoft .Net framework
- (ii) Microsoft .Net compact framework (Mobile Devices)
- (iii) XML / ASP
- (iv) ODBC compliant databases i.e. MS SQL2000, Sybase, MySQL (open source)
- (v) MS Windows platform
- (vi) MS Server 2003
- (vii) Pocket PC 2002/2003

***Hardware technology***

- (i) Barcode system : linear and 2D barcode
- (ii) Batch connection : Bluetooth , IR , RS232
- (iii) LAN connection : TCP/IP, WiFi 802.11b, UDP
- (iv) WAN connection : SMS, MMS, GPRS
- (v) Barcode Printer, wired and wireless (RF / Bluetooth)
- (vi) Handheld terminal, text base or GUI base
- (vii) RFID

#### 4 BUSINESS OVERVIEW (Cont'd)

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The IT industry is dynamic, characterised by rapid changes in technology and frequent introduction of new and more advanced IT products, changes in customer demands and evolving industry standards. Recognising this, the development of Group's solutions, in particular its software and hardware development platforms are modular and highly scalable. This will enable the Group to ensure that the Group's in-house solutions are compatible with the latest technologies in the market. This prompted the Group to constantly keep abreast with the latest development in the software and hardware technologies in the market.

In particular, the Group's R&D team keeps abreast with new technologies (such as RFID technology) to ensure the success in introduction of its existing and future in-house solutions plus allows it to reduce the lead-time in developing new solutions. This serves as one of the competitive edges over the Company's competitors.

Currently, the Group utilizes bar coding and RF technologies as part of its EDCCS solutions, which are highly scalable. The founders foresee that the RFID technology would be widely used in the future. Moving forward, the Group is gearing towards using the next generation of products in RFID technology. The Group will explore opportunities to further integrate the application of the said RFID technology into its EDCCS solutions. Due to the cost prohibitive factor, RFID technology is currently not widely utilized in various industries. Nevertheless, in the event the aforesaid cost prohibitive factor can be overcome in the future, the RFID technology is expected to proliferate and to be used commonly.

##### 4.3.16.1 RFID Technology

RFID technology describes the use of RF signals to provide automatic identification of items. RF refers to electromagnetic waves that have a wavelength suited for use in radio communication. RFID is similar in concept to bar coding in terms of transmitting and receiving data save for that bar code technology use optical signals to transfer information from label to a reader and RFID technology uses RF signals to transfer information from a RFID device to the reader.

RFID has been considered a forward-looking technology. It is attracting considerable attention as a complement to bar code lately because of the significant range, speed and unattended reading advantages it provides. Generally, RFID provides value in situations where trace-ability through a process or item life cycle is required, where labour costs or data errors related to identification and handling are high, where there are time or labour constraints related to item identification.

The efficiency and flexibility in the operations factory and warehousing industrial operations are improved greatly, without much coordination and complexity as RFID delivers tremendous value and control for product genealogy and lifetime trace-ability, material management and replenishment, especially in just-in-time (JIT) and Kanban environments, asset tracking, warehousing and yard management processes.

The primary benefits of RFID are, amongst others:-

- (i) eliminates clerical errors in recording data;
- (ii) eliminates the requirements of wires and cables and the costs associated with them;
- (iii) offers portability while providing instant access to collected data;

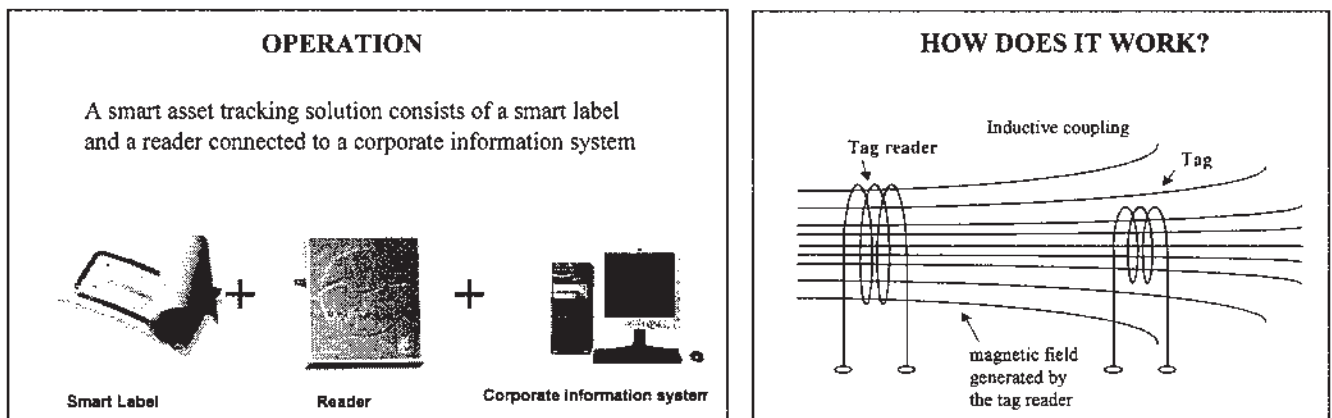
4 BUSINESS OVERVIEW (Cont'd)

- (iv) minimises loss of data by eliminating the delay between data collection and transmission; and
- (v) availability of real time information to enable critical decision making instantly.

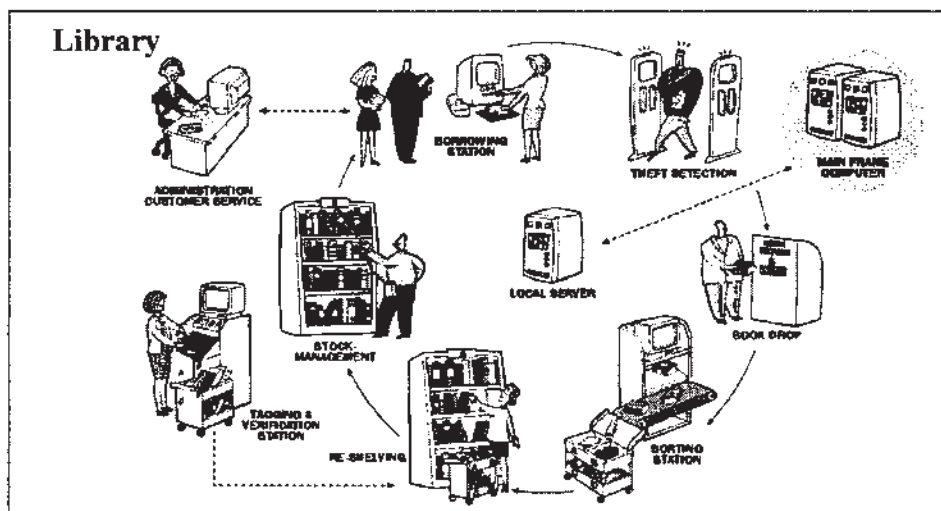
RFID system has more advantages than bar coding system in the following manner:-

- (a) RFID does not require a visible label to be read and it is not subject to constraints in positioning the reader. It can be injected or moulded into the plastic and container, etc. Hence, RFID has greater flexibility in positioning;
- (b) RFID can be used over almost indefinitely, thus, offering a longer lifetime;
- (c) RFID offers large memory capacity and multiple read and write functions; and
- (d) RFID is less prone to fault in harsh and challenging environment, i.e. wet, dusty, dirty conditions, corrosive environments, impact, vibrations, etc.

*RFID Technology*



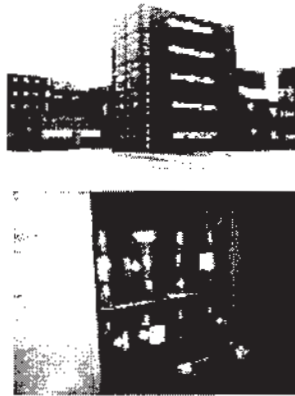
*Applications of RFID*



4 BUSINESS OVERVIEW (Cont'd)

**Container Tracking**

- Smart label is integrated or injected into the body of the container
- Identification of the container and its content
- Total control of the flow and reduction of losses
- Tracking of rental crates



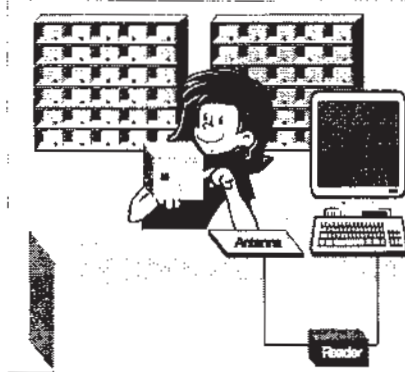
**Gas Cylinder**

- Complete gas cylinder tracking at each step of its life cycle
- Personalised invoicing with actual consumption
- Stock management during filling, delivery and return



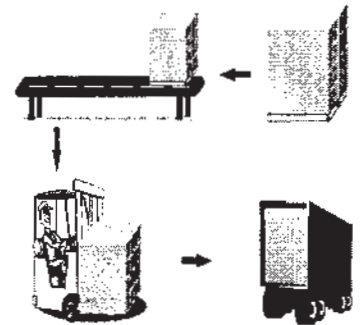
**Part Tracking System**

- To set up a RFID system to track the movement of spare parts.
- Accurate spare parts accountability and traceability



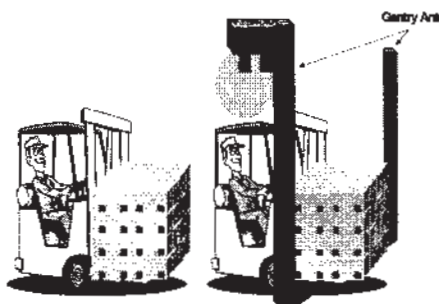
**Warehouse Management System**

- RFID system setup on conveyor system, creating pallet info into the system.
- Mobile RFID system on forklifts.
- Increase productivity & eliminate human errors



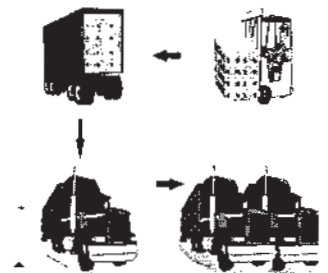
**Material Tracking System**

- Long range passive RFID system
- Gantry system deploy to track raw material
- Increase productivity and trace-ability



**Asset & Vehicle Tracking System**

- Comprises of Passive and Active RFID system.
- Passive system deploy to track inventory,
- Active system deploy to track vehicle.
- Increase accuracy on time of departures and arrival.



#### **4 BUSINESS OVERVIEW (Cont'd)**

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##### **4.3.17 Contribution to Economic Growth and Government Objectives**

In recognising the importance of IT as the foundation of national development in the future, the Government has introduced various policies and incentives to encourage the growth of the IT industry. An important milestone of the IT development program is the MSC. The MSC serves to provide synergistic expansion of related IT industries/products and to create an environment for the orderly development of IT in the country. The flagship applications for multimedia environment development are R&D clusters, worldwide manufacturing webs and borderless marketing.

With the Group's active R&D efforts in coming up with new IT-related products, a strong product development plan and an active marketing strategy lining in the future milestone, Grand-Flo is expected to bring benefits to the industries in which the Group markets its products and also the new industries the Company intends to explore as these new development of products will assist in gearing these industries towards higher efficiency and productivity, which will contribute to the Malaysian economy.

#### **4.4 SUBSIDIARY COMPANIES**

##### **4.4.1 Information on GFES**

###### **(i) History and business**

GFES was incorporated on 3 January 1996 in Malaysia under the Act, 1965 as a private limited company under the registration number 372536-H. GFES is a wholly owned subsidiary of Grand-Flo.

GFES commenced its operations in January 1996 and is principally involved in the provision of EDCCS solutions. The business operations of the GFES originated from a division of GFESS, a company majority-owned by the Managing Director, Tan Bak Hong, in 1994, which was set up to distribute Auto-ID products. Recognising that there is a significant untapped potential for the automation of business processes of various industries in Malaysia and after acquiring the domain knowledge and technical know-how in the field of Auto-ID, the business operations were expanded to provide bar code system solutions to its customers in various industries. In view of the expansion of the aforementioned business operations, GFES was incorporated in 1996 to take over the integration solution business.

###### **(ii) Share capital**

The present authorised share capital of GFES is 500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of GFES is 500,000 comprising 500,000 ordinary shares of RM1.00 each.

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**4 BUSINESS OVERVIEW (Cont'd)**

Details of the changes in the issued and paid-up share capital of the company since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of ordinary shares allotted</b>	<b>Par value (RM)</b>	<b>Consideration</b>	<b>Total issued and paid-up share capital (RM)</b>
03.01.1996	2	1.00	Subscribers' Shares	2
09.02.1996	99,998	1.00	Cash	100,000
21.07.1999	100,000	1.00	Cash	200,000
26.04.2004	300,000	1.00	Bonus Issue	500,000

GFES does not have any subsidiary or associated companies.

**4.4.2 Information on GFS****(i) History and business**

GFS was incorporated in Singapore on 11 March 2004 as a private limited company under the registration number 200402908D and commenced operation in 15 March 2004. Grand-Flo holds a 51.0% equity interest in GFS whilst Innotech Resources Pte Ltd holds the remaining.

The principal activities of GFS are provision of EDCCS solution. GFS is used as a vehicle by Grand-Flo Group to penetrate into the Singapore market and regional roll out projects involving global companies for its EDCCS solutions.

**(ii) Share capital**

The present authorised share capital of GFS is SGD1,000,000 comprising 1,000,000 ordinary shares of SGD\$1.00 each. The issued and paid-up share capital of GFS is SGD50,0000 comprising 50,000 ordinary shares of SGD1.00 each.

Details of the changes in the paid-up capital of the company since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of ordinary shares allotted</b>	<b>Par value (SGD)</b>	<b>Consideration</b>	<b>Total issued and paid-up share capital (SGD)</b>
11 March 2004	50,000	1.00	Subscribers' shares	50,000

GFS does not have any subsidiary or associated companies.

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## 5 INDUSTRY OVERVIEW

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### 5.1 OVERVIEW ON MALAYSIAN AND WORLD ECONOMIES

The favourable external environment is among the factor that has propelled Malaysia's economic growth to 7.6 percent in the first quarter of 2004 and 8 percent in the second quarter, which is among the highest in the region. This growth momentum is expected to continue in 2004 with the GDP estimated to grow at 7 percent, higher than earlier projected.

Growth in the domestic economy has been broad based led by the manufacturing sector at 10.5 percent, services 6 percent, mining 5 percent and agriculture 2.8 percent. The country continues to enjoy full employment with low inflation. The unemployment rate is at 3.5 percent while the Consumer Price Index increased by only one percent in the first half of 2004.

Budget 2005 will focus on the four strategies, i.e. (i) enhancing the effectiveness of Government financial management, efficiency of the delivery system and competitiveness; (ii) accelerating the shift towards a higher value-added economy; (iii) developing human capital as a catalyst of growth; and (iv) ensuring the well-being of the *rakyat* through improving their quality of life.

To implement the strategies above 2005, the Government proposes an amount of RM117.4 billion be appropriated in 2005 Budget. The largest development allocation of 49.1 percent or RM13.9 billion is for the economic sector to meet the requirements for infrastructure, agriculture and industry. A sum of RM7.6 billion or 26.9 percent is for the social sector, including education and training and health, as well as housing. The security sector is allocated RM3 billion or 10.6 percent and general administration RM3.8 billion or 13.4 percent.

The Government proposes to establish a Taxation System Review Panel comprising representatives from the public and private sectors. This Panel will review the tax system, including the provisions of the Income Tax Act 1967. The consumption tax, in its present form, consists of sales tax and services tax. Sales tax is levied on goods at the point of import or at the manufacturers' level. Service tax, on the other hand, is imposed on selected services, including those provided by professionals, as well as operators of hotels and restaurants. The Government proposes to replace both these taxes with a single consumption tax, based on the value-added concept. The new tax, known as the Goods and Services Tax (GST) will be more comprehensive, efficient, transparent and effective thereby enhancing tax compliance. Given that, under the new system, companies need to keep orderly accounts, the Government's revenue collection is also expected to increase. The Government proposes to implement this new tax on 1 January 2007. The introduction of the new tax will provide the Government with the opportunity to reduce corporate and individual income tax rates.

The Government will continue to develop the ICT sector and the MSC. MSC will be strengthened with the roll out to Bayan Lepas, Pulau Pinang and Kulim High-Technology Park, Kedah.

R&D activities will be restructured to meet market demands, whereby innovation capabilities must be upgraded from the *adopt* and *adapt* level to that of design and innovate. There is a need to have greater focus on R&D and promote the commercialisation of R&D. The Government is confident Malaysian-owned companies will step forward to spearhead the commercialisation of findings of local R&D. For this purpose, the Government proposes:-

- (i) a locally-owned company which invests and owns at least 70 percent equity in the company that undertakes commercialisation projects be granted tax deductions equivalent to actual investment; and
- (ii) a company that undertakes commercialisation projects the granted Pioneer Status of 100 percent for 10 years.

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## 5 INDUSTRY OVERVIEW (Cont'd)

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The recovery of the world economy continues to strengthen. Global growth is estimated at 4.6 percent with trade expanding by 6.8 percent in 2004. These encouraging developments are driven by better economic performance of developed countries as well as the robust growth of China and India.

Malaysia's GDP is expected to grow by measures to strengthen the economy. Malaysia's GDP is expected to grow by 6 percent in 2005, a commendable growth rate in view of the challenging global economic environment. Global growth is expected to be slower at 4.4 percent. The US is expected to gradually raise interest rates to contain its rising inflation. High and unstable oil prices will create uncertainties, which can impact global growth.

*(Source: The 2005 Budget Speech by YAB Dato' Seri Abdullah bin Hj. Ahmad Badawi, Prime Minister and Minister of Finance, Introducing the Supply Bill (2005) in the Dewan Rakyat, "Building on Past Achievements towards Greater Success", 10 September 2004", www.pmo.gov.my. The Budget Speech was not prepared for inclusion in this Prospectus.)*

### 5.2 THE MALAYSIAN IT INDUSTRY

PIKOM estimated that the local ICT industry can expect up to 15 per cent growth in 2004 to RM9 billion from the year before. This is owing to the continued emphasis on ICT penetration and making inroads for ICT uptake in Malaysia.

According to PIKOM Chairman, the Malaysian economy can expect faster growth over five percent compared to 2003 that was hampered by the Iraq War, Severe Acute Respiratory System (SARS) and terrorist attacks. The industry can also expect better growth in key ICT sub-sections and verticals namely the small and medium enterprises, financial, manufacturing, government and the home market segments are the main drivers of the ICT industry.

In addition, with Malaysia's acquisition of the new MM chip that is based on radio frequency Identification (RFID) technology, there are boundless opportunities for exploring the uses of this chip. With the size of the MM chip below 0.5 mm square at an estimated cost of less than 38 sen, which can be embedded in papers and other products, Malaysians should strive to develop new applications based on this technology.

*(Source: PIKOM News Release on 5 January 2004, "PIKOM sees 15% growth for local ICT industry", www.pikom.org.my. The news release was not prepared for inclusion in this Prospectus.)*

Thus, to tap into the expected growth in the ICT industry, the Group is expected to benefit from the growth with its active R & D activities. In addition, in line with the Government's recognition on RFID technology, the Group is expected to contribute to the nation's economic growth and assists in achieving the Government's objective to promote this new technology via continuous developing new solutions based on RFID and bar coding technologies.

### 5.3 THE EDCCS AND ERP INDUSTRIES

The Group's integrated EDCCS solutions can be integrated with and complement world-leading ERP systems such as SAP, Baan, JD Edward, Oracle and Solomon used by various industries, which include amongst others, the manufacturing, FMCG, warehousing, logistics, government and healthcare industries. In addition, the Group's integrated EDCCS solutions can be sold on a standalone basis without integrating with the ERP system. In this respect, the growth of the Group's business is essentially dependent upon the growth of:-

- (i) the Auto-ID Collection market; and
- (ii) the ERP software industry.

## 5 INDUSTRY OVERVIEW (Cont'd)

### *Auto-ID Collection market*

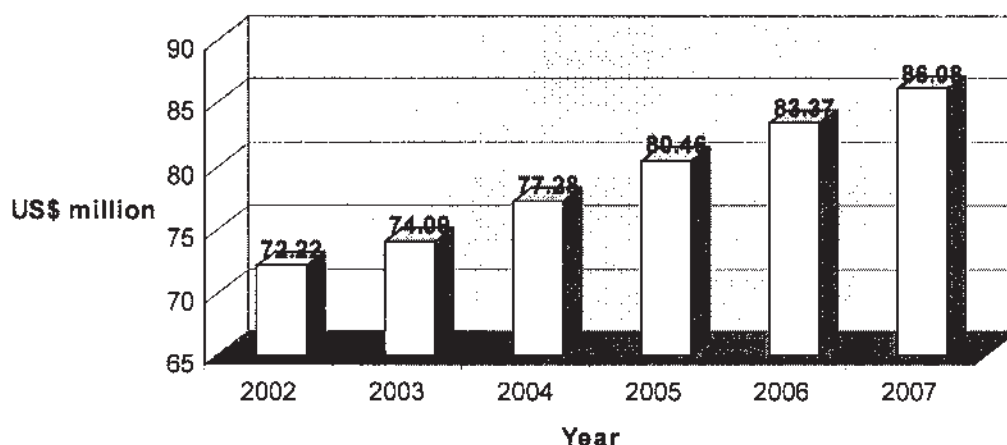
The Board believes that the Auto-ID Collection market is a growing market. Based on the Board's estimate, the Asia Pacific Auto-ID Collection market forecast is expected to reach approximately RM2 billion by the year 2005.

Along the implementation of AFTA by 2005, local-based manufacturers in Malaysia are required to be more competitive in the regional market place. This may trigger the acceleration of IT expenditure amongst local-based manufacturers. In fact, it is possible that companies will need to "arm" themselves by investing in the latest IT solution to achieve efficiencies and costs savings. The Group is expected to reap the benefits of this trend.

### *ERP software industry*

According to IDC in its report done for Q4 2003 titled, "Malaysia ERM Applications Forecast and Analysis, 2002-2007", IDC estimated that the ERM applications market in Malaysia was valued at US\$72.2 million (RM274.36 million) in 2002. IDC also forecasted that this market would grow to reach US\$86.1 million (RM327.18 million) by 2007, following a compounded annual growth rate of 3.6% between 2002 and 2007. The Malaysian ERM software market forecast from 2002 to 2007 (figures denominated in US\$ millions) is as follows:-

**Malaysia Enterprise Resource Management (ERM) Applications  
Market Forecast, 2002 - 2007**



(Source: IDC, Q4 2002)

The above information was sourced from the IDC's report dated February 2004 and the report was not prepared for inclusion in this Prospectus.

Based on the Board's estimate, a majority of the users of ERP system have yet to implement the EDCCS solution. The Board believes that EDCCS solutions can get the ERP systems out of historical data mode and into real-time mode (by providing real time information and increased data accuracy) i.e. unlock the full benefits of ERP system. In this respect, it presents a promising untapped potential for the Group's integrated EDCCS solutions.

Premised on the above, the Board believes that the Group is well poised to capitalise on the abovementioned opportunities.

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**5 INDUSTRY OVERVIEW (Cont'd)**

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**5.4 RELEVANT LAWS AND REGULATIONS GOVERNING THE INDUSTRY AND PECULIARITIES OF THE INDUSTRY**

Pursuant to the Communications and Multimedia Act 1988, the Malaysian Communications Multimedia Commission (“MCMC”) has the overall responsibility of spectrum management. “Spectrum” refers to the continuous range of electromagnetic wave frequencies up to and including a frequency of 420 terahertz.

All products and equipment of the Group, which utilises RF technologies make use of the spectrum and is therefore subject to a “Class Assignment” issued by the MCMC. A Class Assignment confers rights on a person to use a frequency band or bands for a specified purpose. There is no requirement for registration of Class Assignments. However, all products and equipment which make use of the spectrum, must be certified by Sirim Qas Sdn Bhd.

Save as set out above, the Board is not aware of any specific regulations governing the business application software and hardware industry in Malaysia nor is the Board currently aware of any specific material peculiarity in the said industry.

Recognising the importance of IT as the foundation of national development in the future, the Government has introduced various policies and incentives to encourage the growth of the IT industry. The most important milestone of the IT development program is the MSC. The MSC will provide the catalyst for the synergistic expansion of related IT industries/products and create the enabling environment for an orderly development of IT in the country. The MSC has led to the emergence of new service-based industry clusters, including software development, telecommunications, animation, production and broadcasting, provision of on-line services, education and training, R&D, and networks and broadband applications. In order to promote the MSC, several flagship applications have been identified such as electronic government, smart schools, multipurpose card and telemedicine. The flagship applications for multimedia environment development are R&D clusters, worldwide manufacturing webs and borderless marketing.

**5.5 COMPETITION**

To the best knowledge of the Directors, there are not many major players in the EDCCS solutions market in Malaysia. Among the major players, only a few (including Grand-Flo) have their own in-house developed EDCCS solutions whilst the remaining players are solely distributing Auto-ID devices and do not provide a total EDCCS solution package.

In addition, Grand-Flo mainly focuses on marketing its solutions/products to the following market sectors:

- Manufacturing
- Logistics
- FMCG
- Government
- Warehousing
- Healthcare

whereas the other major players focuses more on retailers, FMCG and government bodies. As such, the Directors believe that the Group currently does not have to face keen competition from the other abovementioned major players due to the differing target market segments. Users of the Group’s solutions include established MNCs, local conglomerates and government bodies.

## 5 INDUSTRY OVERVIEW (Cont'd)

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The Board believes that Grand-Flo has the competitive edges over its competitors and/or new entrants based on the following:-

- (i) the Group provides one-stop solution center service as compared to many other players in the market who are solely focus in either software or hardware;
- (ii) the founders have acquired in-depth domain knowledge in key industries such as electronic, semiconductor, FMCG, etc, i.e. delivery of knowledge-based total solutions. The Group's founders, Tan Bak Hong and Tan Bak Leng, have been devoting themselves in the IT industry since 1996. They have the requisite in-depth experience and knowledge in various aspects of the aforementioned industries, in particular the business processes and flows. The founders understand the particular needs of each industry, therefore, providing its customers comprehensive and effective system automation proposals that fit their needs. Grand-Flo also provides system consultancy and site surveys, software, hardware, middleware, including testing and training;
- (iii) the Group has recorded proven track records with the success of implementation of various EDCCS solutions for major MNCs and local conglomerates. Generally, the investment for the implementation of EDCCS solutions is considerably high, thus prospective customers will look for reference sites as an important factor in selecting consultant/vendor for their projects. Over the years, the Group has gradually established reputation in the EDCCS industry, as such Grand-Flo's customer base has grown over the years and some of them have been with the Company since its inception in 1996;
- (iv) the Group's products and services are scalable thus providing investment protection to the customers and encourage customers to constantly upgrade their system to be in line with the ever-changing technology. The scalability of its product also encourages customers to sign up maintenance contracts with Grand-Flo, thus discouraging entry from competitors;
- (v) the Group provides wide range of products and services, so that the customers do not need to look elsewhere for support in other areas as Grand-Flo has multi-solution to satisfy the needs in various sections of their business processes; and
- (vi) the Group has established a strong customer base. It generally takes massive efforts and competencies to attain the recognition from large or well-established corporations, in particular the MNCs. With regards to this, the Group has managed to maintain and/or increase its list of MNCs as customers over the years.

### 5.6 DEMAND AND SUPPLY CONDITIONS AND DEPENDENCE ON OTHER INDUSTRIES

The Board believes that the demand for the Group's solutions is expected to achieve promising growth due to the increased market awareness among the manufacturing, FMCG, warehousing, logistics, government and healthcare industries of the importance of Auto-ID applications to enhance efficiencies. Hence, the demand is essentially dependent upon the untapped ERP software and the Auto-ID Collection markets. The prospects of these two (2) markets are set out in Section 5.3 of this Prospectus.

Supply of solutions to the aforesaid industries is provided mainly by companies having proven product track records and domain knowledge in the industries.

## **5 INDUSTRY OVERVIEW (Cont'd)**

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### **5.7 SUBSTITUTE PRODUCTS AND SERVICES**

The IT industry is dynamic, characterised by rapid changes in technology and frequent introduction of new and more advanced IT products, changes in customer demands and evolving industry standards. However, the Group's R&D team constantly keeps abreast with new technologies and market trends wherein the business development team works closely with the R&D team to provide feedback on market trends and client requirements. The Group also focuses on its human resource development by investing in external and in-house training sessions to update and educate its employees.

### **5.8 RELIANCE ON AND VULNERABILITY TO IMPORTS**

The Group is involved in the provision of integrated EDCCS solutions. Hence, Auto-ID hardware such as bar code and RFID reading equipment and hand-held computers form part of the Group's integrated EDCCS solutions. Certain of these hardware and equipments are sourced from overseas, in particular from Intermec Technologies Corporation and Handheld Products Inc. (formerly known as Welch Allyn). In addition, the Group is one of the appointed and authorised distributors for various leading Auto-ID suppliers, which include Intermec Technologies Corporation and Handheld Products Inc. (formerly known as Welch Allyn) in the region. Hence, the Group relies on the import of the hardware and equipments.

Nevertheless, the hardware and equipments required in the development of the Group's EDCCS solutions can be readily sourced from other suppliers and/or authorized distributors. Furthermore, the Group has developed and maintained strong and cordial supplier- and principal- relationships with Intermec Technologies Corporation and Handheld Products Inc. (formerly known as Welch Allyn) for more than five (5) years. Thus, this mitigates the risk of disruption in supplies of hardware and equipments to the Group.

Premised on the above, the Directors believe that the Group's reliance on and vulnerability to imports are not material.

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## 6 FINANCIAL INFORMATION

### 6.1 FINANCIAL HIGHLIGHTS

There were no audit qualifications for the financial years/period under review. The summary of the proforma consolidated audited results of the Grand-Flo Group for the past five (5) FYE 31 December 1999 to 2003 and six (6) month period ended 30 June 2004 is as follows:-

	← Financial year ended 31 December →					Six (6) month period ended
	1999	2000	2001	2002	2003	30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	5,326	8,983	7,690	8,515	11,227	6,961
Profit from operations	438	398	430	805	1,570	1,280
Non-operating income	9	69	84	86	54	11
EBITDA	447	467	514	891	1,624	1,291
Less: Finance cost	(9)	(12)	(11)	(46)	(49)	(38)
Depreciation	(61)	(68)	(71)	(98)	(160)	(89)
Amortisation of investment	-	(1)	(1)	(1)	(1)	(11)
PBT	377	386	431	746	1,414	1,153
Less: Taxation	(14)	(120)	(138)	(225)	(410)	(314)
PAT	363	266	293	521	1,004	839
Minority interests	-	-	-	-	-	2
Profit attributable to shareholders	363	266	293	521	1,004	841
Number of ordinary shares of RM0.10 each in issue* ('000)	28,160	28,160	28,160	28,160	28,160	28,160
Gross EPS* (sen)	1.34	1.37	1.53	2.65	5.02	4.09
Net EPS* (sen)	1.29	0.95	1.04	1.85	3.57	2.99

Notes:-

- \* Based on enlarged share capital after the Acquisition of GFES but before Subscription and Public Issue.
- (i) The proforma consolidated results of the Group for the five (5) FYE 31 December 2003 and six (6) month period ended 30 June 2004 are prepared for illustrative purposes only and are based on the audited financial statements of Grand-Flo and GFES.
- (ii) There are no extraordinary or exceptional items in respect of all the financial years/period under review.



## 6 FINANCIAL INFORMATION (Cont'd)

### 6.2 ANALYSIS AND COMMENTARY ON FINANCIAL INFORMATION

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S FINANCIAL HIGHLIGHTS INCLUDED IN SECTION 6.1 OF THIS PROSPECTUS.

#### 6.2.1 Segmental Analysis

The following table demonstrate the breakdown of the Group's revenue contribution by individual companies and products respectively.

	← Financial year ended 31 December →					Six (6) month period ended 30 June 2004
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	RM'000
<b>Companies</b>						
- Grand-Flo	-	-	-	-	53	88
- GFES	5,326	8,983	7,690	8,515	11,227	6,952
- GFS	-	-	-	-	-	92
	5,326	8,983	7,690	8,515	11,280	7,132
Consolidation adjustment	-	-	-	-	(53)	(171)
	5,326	8,983	7,690	8,515	11,227	6,961
<b>Products</b>						
- Integrated solutions *	5,326	8,983	7,690	8,104	10,736	6,713
- Customised in-house solution ^	-	-	-	411	491	248
	5,326	8,983	7,690	8,515	11,227	6,961

Notes:-

\* Integration and installation services using in-house integrated solutions and 3<sup>rd</sup> party software, middleware and hardware.

^ In-house developed solutions (i.e. Asset Tracking System and Sales Force Automation) and customisation services using in-house integrated solutions.

#### 6.2.2 Overview of Revenue and Operating Profits Growth and Factors contributing thereto

##### Revenue

GFES recorded its sales at RM5.3 million for the financial year ended 31 December 1999, which was a drop of 17.3% or RM 1.1 million from the prior year mainly due to the uncertainty surrounding the possibility of Y2K computer breakdown. As such, many customers have held back their purchasing plans to avoid the risk of failure until after the year 1999.

Significant increase in revenue was recorded in year 2000 as companies resumed their procurements, which had been held back in the previous year. As the uncertainty of the Y2K was removed, the market observed proactive demand and supply as manufacturers allocated higher expenditure on IT which were previously put on hold. GFES acutely exploited the positive market sentiment, which increased its sales by 68.7% or approximately RM3.7 million.

6 **FINANCIAL INFORMATION (Cont'd)**

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In 2001, sales had dropped slightly as a result of the September 11 incident, which added downward pressure to GFES's performance in the last quarter of the year pulling overall sales down by RM1.3 million or 14.4%. GFES constantly strived to stay ahead of its competitors by actively exploring niche market, which could secure more sales of long-term viability. The development of Asset Tracking System had enabled GFES a competitive edge against other market players. Although the launching and commercialisation of Asset Tracking System was in year 2001, billing was only done in 2002 as the analysis shows.

Year 2002 recorded an increase in sales of approximately RM820,000 or 11% as compared to the year before indicating a steady underlying demand for GFES's products and services despite the overall negative market sentiments across global economy following the aftermath of the terrorist attack. In this year, GFES has also achieved its breakthrough with its in-house developed proprietary software, namely Sales Force Automation system under the brand name "M-Solution". Sales Force Automation is able to assist the users to fully unlock the benefits of the ERP system allowing increased efficiency in operating processes.

GFES's all time sales record was achieved in 2003 registering a turnover of approximately RM11.2 million which marked an increase of approximately RM2.7 million or 31.4% from the performance in the previous year. This was largely due to GFES's ability to lock in two major accounts from a FMCG and a utility corporation respectively, which contributed new sales amounted to approximately RM2.2 million. In addition, one of GFES largest customers, had also increased its orders by more than RM1 million in the year.

*Operating Profits*

The operating profits increased in 1999 due to the increase in demand for service provided to GFES' clients for more integrations and compatibility testing between the hardware with their newly installed Y2K protection systems. When clients resumed their procurements in 2000, which had been held back in the previous year, the operating profits increased. Decrease in operating profits in 2001 was consistent with the decrease in sales as a result of the September 11 incident. The launching and commercialisation of Asset Tracking System in 2000 had yet to bring effect to GFES as billing was only done in 2002.

The significant increased in operating profits in 2002 was mainly due to the results of GFES' move towards in-house developed solution-oriented sales, which yielded better margin. In 2003, a similar trend continued with a proportionate increase in in-house developed solution-oriented sales. In 2003, GFES reported a higher operating profit due to the securing of high value orders from new customers for its new in-house developed solution, i.e. Sales Force Automation.

**6.2.3 Taxation**

The tax liabilities of the company during the years under review have been adequately provided for based on the tax returns. The effective tax rate for the years under review is marginally higher than the statutory tax rate and is mainly due to certain expenses being disallowed for taxation purposes.

The Company had paid all its tax for the periods under review.

**6 FINANCIAL INFORMATION (Cont'd)**

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**6.3 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE**

As at 27 September 2004, being the latest practicable date prior to the printing of this Prospectus, and save for the risk factors disclosed in Section 3 of this Prospectus, the financial conditions and operations of the Group are not affected by any of the following:-

- (a) known trends, demands, commitments, events or uncertainties that have had or that the Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the Group;
- (b) unusual, infrequent events or transactions or any significant economic changes that would materially affected the financial performance, position and operations of the Group;
- (c) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position; and
- (d) pending and threatened litigation and arbitration proceedings having an impact on the financial position of the Group.

**6.4 WORKING CAPITAL, BORROWINGS, MATERIAL LITIGATION, CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENT**

**(i) Working Capital**

The Board is of the opinion that, after taking into account the cashflow position, the banking facilities available and the net proceeds from the Subscription and Public Issue, the Company will have adequate working capital for a period of twelve (12) months from the date of issue of this Prospectus.

**(ii) Borrowings**

As at 27 September 2004, being the last practicable date prior to the printing of this Prospectus, the Group's total outstanding borrowings amounted to RM2,209,652 consisting of banker acceptance, bank overdrafts, hire purchase and term loan obligations, of which RM1,020,040 is short term and RM1,189,612 is long term. The interest rates obligations for the above borrowings are in the range of between 1.25% and 7.1%.

The Grand-Flo Group has not reported any default on payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

**(iii) Material Litigation**

As at 27 September 2004, being the latest practicable date prior to the printing of this Prospectus, the Group is not engaged whether as plaintiff or defendant in any legal action, proceedings, arbitration or prosecution for any criminal offence, which has a material effect on the financial performance and position of the Group and the Board has no knowledge of any proceedings pending or threatened against the Group or any facts likely to give rise to any proceedings which might materially affect the position and business of the Group.

**6 FINANCIAL INFORMATION (Cont'd)**

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**(iv) Contingent Liabilities**

There are no contingent liabilities incurred by the Group as at 27 September 2004, being the latest practicable date prior to the printing of this Prospectus.

**(v) Material Capital Commitment**

Save as disclosed in Sections 2.7 and the outstanding borrowing amounting to approximately RM1.5 million for the acquisition of properties referred to in Sections 11.1 and 16.8, the Group has no material capital commitment as at 27 September 2004, being the latest practicable date prior to the printing of this Prospectus.

**6.5 FUTURE FINANCIAL INFORMATION**

Due to the uncertain nature and inherent risks of the business of the Group, no future financials are included in this Prospectus. For more details on the risk factors, please refer to Section 3 of this Prospectus.

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7 **SUMMARY OF THE BUSINESS DEVELOPMENT PLAN**

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**(A) DIRECTION OF THE GROUP AND DEVELOPMENT OF NEW PRODUCTS**

The Board of Grand-Flo believes that:-

- (i) R&D is crucial to the Group becoming a leading integrated EDCCS solutions provider in SEA; and
- (ii) the possession of strong R&D capabilities is important to the Group's continued success and its ability to develop new integrated EDCCS solutions and to improve on its existing products in response to changes in technological development.

The Group developed its first customised in-house EDCCS solution "Asset Tracking System" in 2001. Asset Tracking System was successfully launched in year 2001. In 2002, the Group developed Sales Force Automation System and it was successfully launched.

The Group's intent to continually develop new integrated EDCCS solutions and improve on its existing solutions is in response to changes in technological development. This is to ensure continuous growth in sales and in line with the Group's strategy towards achieving a multi-solution company offering a wide range of integrated EDCCS solutions. The new integrated EDCCS solutions will be introduced to the same customer-base and new customers over time.

The IT industry is characterised by rapid changes in technology and frequent introduction of new and more advanced products and services, changes in client demands and evolving industry standards. Hence, the Group would need to keep abreast of the latest technologies in order to maintain its competitive edge in the EDCCS solutions market. Recognising this, the Company's R&D team constantly keeps abreast of new technologies and market trends wherein the business development team works closely with the R&D team to provide feedback on market trends and client requirements.

The Group has spent an estimated total of RM410,000 in R&D expenses over the past five (5) years to 31 December 2003. The Group is expected to incur a total of RM1 million on R&D expenses in the FYE 31 December 2004, 2005 and 2006. The Board of Grand-Flo envisages that the investment in R&D will fuel the Group's development of new products in the coming years and that R&D will continue to be an essential focus of the Group in the future.

**(B) NEW OVERSEAS MARKETS**

The Group aims to be a leading integrated EDCCS solutions provider in SEA, establishing itself in the local market initially, using Malaysia as the platform for future growth and expansion in the region including but not limited to Thailand, Singapore, Indonesia, Vietnam and Philippines.

The Group will explore various options to decide on the forms of its presence in new overseas markets. The presence of the Group in new overseas markets in the future may include, inter-alia, the following:-

- (i) Setting up of subsidiary;
- (ii) Acquisition of equity interest in a foreign company;
- (iii) Appointment of authorised distributor/Reseller; or
- (iv) Network with the distributor and business software consultants or principals.

In respect of the above, GFS was incorporated as a 51.0% owned subsidiary of Grand-Flo on 11 March 2004. In addition, Grand-Flo also intends to acquire a substantial equity interest in a company in Thailand to expand its geographical reach. As a large number of regional offices of global companies are located in Singapore, the setting up of GFS will give the Group a head start in securing projects that involve regional roll-outs in SEA, particularly in Malaysia and Thailand.

**7 SUMMARY OF THE BUSINESS DEVELOPMENT PLAN (Cont'd)**

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**(C) STRATEGIC ALLIANCE**

The Company plans to collaborate with more consultants of ERP Software providers to tap into companies, which require the use of the Group's products. To-date, the Group has collaborated with the consultants of leading ERP software providers.

Alternatively, the Group will also form strategic alliances (such as in the area of R&D) with other companies.

**(D) HUMAN RESOURCE**

The Group intends to employ additional experienced R&D staff. This would enable the Group to further enhance its ability to develop new solutions and shorten the product development cycle and hence increases the speed of introducing a product to market. Continuous staff training and development would be emphasised to update the technical knowledge of employees.

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