

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT

8.1 INFORMATION ON PROMOTERS / SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

The promoters, substantial shareholders and Directors of Grand-Flo and their respective shareholdings in Grand-Flo are as follows:-

	Nationality/ Place of incorporation	Designation/ Principal activity	Before the Subscription and Public Issue				After the Subscription and Public Issue ^			
			Shareholding		Shareholding		Shareholding		Shareholding	
			Direct	%	Indirect	%	Direct	%	Indirect	%
Promoters										
Tan Bak Hong	Malaysian	Chairman/ Managing Director	844,808	3.00	14,079,975 ^{*1}	50.00	844,808	1.69	17,052,011 ^{*1}	34.10
Tan Bak Leng	Malaysian	Executive Director	7,603,181	27.00	-	-	7,603,181	15.21	-	-
Moi Ming Huei	Malaysian	Executive Director	2,815,993	10.00	-	-	3,300,000	6.60	-	-
Lim Soon Seong	Malaysian	Executive Director	-	-	-	-	1,800,000	3.60	-	-
Grand-Flo Corp	Malaysia	Investment holding and providing management services to the subsidiary companies	14,079,965	50.00	-	-	17,052,001	34.10	-	-
Substantial Shareholders										
Tan Bak Hong	Malaysian	Chairman/ Managing Director	844,808	3.00	14,079,975 ^{*1}	50.00	844,808	1.69	17,052,011 ^{*1}	34.10
Tan Bak Leng	Malaysian	Executive Director	7,603,181	27.00	-	-	7,603,181	15.21	-	-
Moi Ming Huei	Malaysian	Executive Director	2,815,993	10.00	-	-	3,300,000	6.60	-	-
Tan Chuan Hock	Malaysian	Non-Independent Non-Executive Director	2,815,993	10.00	-	-	5,000,000	10.00	-	-
Grand-Flo Corp	Malaysia	Investment holding and providing management services to the subsidiary companies	14,079,965	50.00	-	-	17,052,001	34.10	-	-
Yap Li Li	Malaysian	Vice President, Operations	10	*	14,924,773 ^{*2}	53.00	10	*	17,896,809 ^{*2}	35.79

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

	Nationality/ Place of incorporation	Designation/ Principal activity	Before the Subscription and Public Issue				After the Subscription and Public Issue [^]			
			← Shareholding →		← Shareholding →		← Shareholding →		← Shareholding →	
			Direct	%	Indirect	%	Direct	%	Indirect	%
Directors										
Tan Bak Hong	Malaysian	Chairman/ Managing Director	844,808	3.00	14,079,975 ^{*1}	50.00	844,808	1.69	17,052,011 ^{*1}	34.10
Tan Bak Leng	Malaysian	Executive Director	7,603,181	27.00	-	-	7,603,181	15.21	-	-
Moi Ming Hwei	Malaysian	Executive Director	2,815,993	10.00	-	-	3,300,000	6.60	-	-
Lim Soon Seong	Malaysian	Executive Director	-	-	-	-	1,800,000	3.60	-	-
Tan Chuan Hock	Malaysian	Non- Independent Non- Executive Director	2,815,993	10.00	-	-	5,000,000	10.00	-	-
Tan Weng Chuan	Malaysian	Independent Non- Executive Director	-	-	-	-	-	-	-	-
Yu Chee Sing	Malaysian	Independent Non- Executive Director	-	-	-	-	-	-	-	-

Notes:-

* Negligible.

[^] Assume the eligible directors and substantial shareholders take up their respective entitlements to the pink form shares allocation and no exercise of ESOS options.

^{*1} Deemed interested by virtue of his shareholdings in Grand-Flo Corp and his spouse's, Yap Li Li, shareholdings in Grand-Flo.

^{*2} Deemed interested by virtue of her shareholdings in Grand-Flo Corp and her spouse's, Tan Bak Hong, shareholdings in Grand-Flo.

8.1.1 Profile and Track Record of Promoters, Substantial Shareholders and Directors

The profiles and track record of the Promoters, substantial shareholders and Directors of the Grand-Flo Group are outlined in Section 8.2 below.

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8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

8.2 PROMOTERS, DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

- (i) Profile of corporate substantial shareholders of Grand-Flo is set out below:-

The details of Grand-Flo Corp are as follows:-

- (a) Grand-Flo Corp was incorporated on 4 September 1997 under the Companies Act, 1965 as a private limited company under the name Arctic Niche Sdn Bhd and subsequently changed to its present name on 15 August 1998.
- (b) As at 27 September 2004, the authorised share capital of the company is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 10,000 ordinary shares of RM1.00 each have been issued and fully paid-up.
- (c) As at 27 September 2004, the shareholdings of directors and substantial shareholders in Grand-Flo Corp are as follows:-

Name	Nationality	← No of shares of RM1.00 each held →			
		Direct	%	Indirect	%
Tan Bak Hong	Malaysian	8,000	80	1,500* ¹	15
Yap Li Li	Malaysian	1,500	15	8,000* ²	80
Moi Ming Huei	Malaysian	500	5	-	-

Notes:-

*1 Deemed interest by virtue of his spouse's, Yap Li Li, shareholdings in Grand-Flo Corp.

*2 Deemed interest by virtue of her spouse's, Tan Bak Hong, shareholdings in Grand-Flo Corp.

- (d) As at 27 September 2004, Grand-Flo Corp is principally an investment holding company with the following subsidiaries and associated company:-

Name	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital (RM)	Principal activity
<i>Subsidiary</i>				
GFESS	18/07/1989 Malaysia	100.00	350,000	Supply and the provision of service in relation to hydraulic engineering products
Grand-Flo Industries Sdn Bhd	16/06/2000 Malaysia	*	100,000	Manufacturing of hydraulic cylinders

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Name	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital (RM)	Principal activity
<i>Associated company</i>				
Feelux (M) Sdn Bhd	03/11/1995 Malaysia	27.15	4,000,000	Manufacturing and trading of machine parts for electrical and electronics components

Note:-

* *Wholly-owned subsidiary of GFESS.*

(e) Grand-Flo Corp does not hold or has not held any substantial shareholdings (5% or more of the issued and paid-up share capital) in other public companies for the past two (2) years.

(ii) Profile of Promoters and Directors of Grand-Flo are set out as follows:-

Tan Bak Hong, aged 41, is the Chairman/Managing Director of the Company. Mr Tan obtained a Bachelor in Engineering from the University of Malaya in 1988. Upon graduation, he started his career as a Sales and Application Engineer with an engineering firm mainly involved in the sales of system design, installation and commissioning of industrial automation project. In 1989, he founded GFESS, which is principally involved in fluid power and motion control business and distribution of hydraulic and pneumatic industrial products.

Mr Tan 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 labourious and error prone to operate. With Mr Tan's business knowledge in the area, Mr Tan envisioned the promising potential for the EDCCS solutions business in Malaysia to increase efficiency of organisations. In summary, Mr Tan recognised that there is a significant untapped potential for the automation of business processes of various industries in Malaysia. In this respect, Mr Tan together with Mr Tan Bak Leng founded the integrated EDCCS solution business in 1994 as part of the expansion of product line for GFESS. In view of the expansion of the integrated EDCCS solution business, Mr Tan and Mr Tan Bak Leng incorporated GFES to take over the integrated EDCCS solution business of GFESS. Mr Tan believed that the Group should move forward and develop its own in-house proprietary solutions in the Auto-ID business in order to further enhance its earnings base. In this respect, the Group developed 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.

Mr Tan is responsible for the strategic planning and management of the Group. In addition, he is also involved in the R&D of the Group.

Mr Tan currently sits on the boards of several private limited companies.

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Tan Bak Leng, aged 39, is an Executive Director of the Company. Mr Tan obtained a Diploma in Electronics Engineering from the French Singapore Institute in 1988. Prior to venturing into sales profession in 1991, Mr Tan was attached to an electronics hardware company (i.e. audio electronics and computer monitor). He was responsible for project coordination between the production and R&D before the production roll out of any new products. In 1991, Mr Tan joined DCP Malaysia Sdn Bhd and essentially responsible for the sales development of the Auto-ID products in the northern region of Malaysia.

With Mr Tan's business knowledge in the various industries, Mr Tan recognised the significant untapped potential for business processes of various industries in Malaysia be automated. In this respect, together with Mr Tan Bak Hong, Mr Tan founded the integrated EDCCS solution business in 1994. Subsequently, Mr Tan assisted the Group to develop and launch its first customised in-house EDCCS solution "Asset Tracking System" in 2001.

Mr Tan is responsible for overseeing the day-to-day business operations in the Penang branch for the Group. He leads and manages a group of sales and technical personnel to provide the professional supports and services to the end users in the region.

Moi Ming Huei, aged 41, is an Executive Director of the Company. He obtained a Bachelor in Engineering from the University of Malaya in 1988. Upon graduation, Mr Moi joined George Kent (M) Bhd as a Sales Engineer in the Oil and Gas Division. In 1993, he was appointed to the board of GFESS and headed business development of the company.

In 1994, he successfully kicked off a new division of EDCCS solution business under GFESS. In view of the expansion of the integrated EDCCS solution business, GFES was incorporated in 1996 to take over the integrated EDCCS solution business of GFESS. Mr Moi has played an important role in assisting GFES becoming a leader EDCCS solutions provider in Malaysia. With his extensive contact in sales and marketing, Mr Moi has successfully assisted in securing businesses for GFES.

With over sixteen (16) years in the mechanical, electronic engineering and IT industries, Mr Moi led the Kuala Lumpur team in GFES to provide complete system solutions from system integration, hardware, software and middleware system solutions to maintenance, contracts and after sales support. Mr Moi is currently responsible for managing the specific accounts, technical and software team of the Group.

Lim Soon Seong, aged 40, is an Executive Director of the Company. Mr Lim graduated with a Diploma in Mechanical Engineering from the Singapore Polytechnic, Singapore in 1986. He started his career as a Production Supervisor in a Singapore company. Prior to joining Grand-Flo Technology Sdn Bhd ("GFTSB"), an electronic components trading company, as a Sales & Marketing Manager in 1994, he was involved in the process and products development with Pecko Pte Ltd.

In 1996, he joined GFES and is currently in charge of the sales team in identifying and developing new accounts. Mr Lim's primary responsibility is to identify and establish business alliances with consultants of ERP systems such as SAP, Baan, JD Edward, Oracle and Solomon. Together with Mr Tan, Mr Lim spearheaded the sales of the integrated EDCCS solutions of the Group. He is also involved in project scoping and project management and responsible for managing business partners and principals.

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Tan Chuan Hock, aged 43, is a Non-Independent Non-Executive Director of the Company. He is also the executive proprietor and also the founder of William C. H. Tan & Associates ("WTA"), a Public Accountants firm. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Taxation and is a Fellow Member of the Association of Chartered Certified Accountants ("ACCA").

After obtaining his professional qualification, i.e. ACCA in 1983, he joined a Public Accountants firm as Audit Assistant. He then advanced to the position of Audit Manager in 1988. He established his own professional practice, i.e. WTA in 1989.

He has over twenty (20) years of experience particularly in financial reporting, auditing, taxation and planning, company secretarial as well as corporate management and advisory functions. He was appointed as director of several private and public limited companies. He presently sits on the Boards of Directors of Orisoft Technology Berhad, PCCS Group Bhd, Forward Mould Resources Berhad and Supportive Resources Berhad. Both Orisoft Technology Berhad and PCCS Group Bhd are listed on Bursa Securities.

Tan Weng Chuan, aged 41, is an Independent Non-Executive Director of the Company. Mr Tan is a member to Malaysia Institute of Accountants. Mr Tan obtained a Bachelor of Accounting (Hons.) from University Utara Malaya in 1987. Mr Tan has more than seventeen (17) years working experience in the accounting and finance industry. He started his career in 1988 when he joined Price Waterhouse as an Audit Assistant. In 1990, he was promoted to a Tax Senior and responsible mainly in tax planning and providing technical assistance in corporate advisory work. He left the company and joined a private limited company in 1991 as the Financial Controller (between 1991 and 1994). He is currently a director of a private limited company.

Yu Chee Sing, aged 41, is an Independent Non-Executive Director of the Company. Mr Yu obtained a Bachelor in Engineering from the University of Malaya in 1988. Mr Yu has over sixteen (16) years experience in the construction industry. Upon graduation, he started his career as a Site Engineer in Design Denco Sdn Bhd. (between 1988 and 1990). Subsequently, he joined Syarikat Murni Utara Sdn Bhd as a Project Manager in 1992. He left the company in 1995 and joined Lintasan Baru Sdn Bhd as a Project Coordinator (between 1995 and 2000). In 2001, he joined Dimensi Baru Sdn Bhd as a Project Director (between 2001 and 2002). Mr Yu is currently a director in a private limited company.

- (iii) Save as disclosed below, none of the Directors and Promoters hold or have held any directorships or substantial shareholdings (5% or more of the issued and paid-up share capital) in other public companies for the past two (2) years:-

		Director Designation	Directorship		Shareholding	
			Date of Appointment	Date of Resignation	Direct (%)	Indirect (%)
Tan Chuan Hock	Orisoft Technology Berhad	Non-executive, non-independent	15 April 2003	-	14.7	-
	PCCS Group Berhad	Non-executive, independent	4 November 1998	-	-	-
	Forward Mould Resources Berhad	Non-executive, non-independent	1 October 2003	-	50.0	-
	Supportive Resources Berhad	Non-executive, non-independent	31 March 2004	-	25.0	-

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

- (iv) None of the Directors are or were involved in the following events whether in or outside Malaysia:-
- A petition under any bankruptcy or insolvency laws filed against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
 - Conviction in a criminal proceedings or is a named subject of a pending criminal proceedings; and
 - The subject of any order, judgement or ruling of any court of competent jurisdiction, tribunal or government body temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.
- (v) None of the Directors have entered into any service agreements, which are not terminable by notice without payments or compensation other than statutory compensation, with the Group.
- (vi) The remuneration paid to the Directors of the Company for services rendered in all capacities to the Group for the financial year ended 31 December 2003 amounted to RM218,100. For the financial year ending 31 December 2004, the remuneration payable to the Directors is estimated at RM464,200.

The number of Directors in the various remuneration bands are set out below:-

	←----- Aggregate Remuneration -----→					
	← FYE 31 December 2003 →			← FYE 31 December 2004 →		
	Executive Director	Non- Executive Director	Total	Executive Director	Non- Executive Director	Total
Up to RM100,000	2	-	2	1	3	4
Between 100,001 and RM200,000	1	-	1	3	-	3

- (vii) Save as disclosed below, none of the executive directors of the Group are involved in the operations of other businesses or corporations:-

Directors	Company	Principal activities	Direct shareholdings (%)
Tan Bak Hong	Grand-Flo Corp	Investment holding and providing management services to subsidiary companies	80.0
	GFESS	Supply and provision of service in relation to hydraulic engineering products	3.0

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Directors	Company	Principal activities	Direct shareholdings (%)
Tan Bak Hong (Cont'd)	Feelux (M) Sdn Bhd	Manufacturing and trading of machine parts for electrical and electronics components	-
	Grand-Flo Industries Sdn Bhd	Manufacturing of hydraulic cylinders	-
Moi Ming Huei	Grand-Flo Corp	Investment holding and providing management services to subsidiary companies	5.0

Tan Bak Hong and Moi Ming Huei hold executive directorships in the abovementioned respective companies. Nevertheless, the participation of Tan Bak Hong in the respective companies are minimal whilst Moi Ming Huei is not actively involved in the engineering business, as such their participations in the operations of other businesses or corporations are not expected to have a material effect on his capacity as Executive Directors of Grand-Flo respectively.

8.3 AUDIT COMMITTEE

The composition of the Audit Committee is as follows:-

Name	Designation	Directorship
Tan Weng Chuan	Chairman of the Audit Committee	Independent Non-Executive Director
Yu Chee Sing	Member of the Audit Committee	Independent Non-Executive Director
Moi Ming Huei	Member of the Audit Committee	Executive Director

The Audit Committee, comprising two (2) Independent Non-Executive Directors and one (1) Executive Director, is responsible for the recommendations to the Board regarding the selection of the external auditors, reviewing the results and scope of the audit and other services provided by the Company's external auditors. In addition, the Audit Committee reviews and evaluates the Company's internal audit and control functions. The Audit Committee is also responsible for the assessment of financial risks and matters relating to related party transactions and conflict of interests. The Audit Committee may obtain advice from independent parties and other professionals in the performance of its duties.

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8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

8.4 KEY PERSONNEL

- (i) The Board is assisted by a team of experienced management and professional personnel. Particulars of the key management personnel and R&D team are as follows:-

Yap Li Li, aged 37, is the Vice President, Operations of the Group responsible for the overall operations of GFES.

Ms Yap obtained a Bachelor of Arts (Economics) Degree from the University of Malaya in 1990. Upon graduation, Ms Yap joined a distribution company as an Administrative Executive. In 1991, she joined Hong Leong Assurance Bhd (“HLA”) for five (5) years. She was promoted from Junior Executive to Assistant Manager during the tenure. Her last position with HLA was responsible for the training and grooming of a team of executives, developing network of agents through geographical zoning, recruitment of new and bigger agencies force and to develop sales targets. Prior to joining GFES in 1996, she was attached with GFESS as Operation Manager, responsible for the administrative and operations workflow and systems.

Lim Peik Gan, aged 27, is the Finance Executive of the Group, in charge of the overall finance and accounting activities of the Group. She graduated with a Bachelor of Commerce Degree in Accounting from the Curtin University of Technology, Australia in 1998.

Ms Lim has more than five (5) years working experience in the accounting profession. Upon graduation, she joined an interior design firm as an Account cum Administration Assistant, mainly involved in billing, sourcing and invoicing. In 1999, she left the company and joined an international trading firm as an Account Assistant. In 2001, she joined GFES.

Lue Lek Huat, aged 28, is the Senior Project Consultant of the Group. He is principally involved in the deployment of technology and development of new products. Mr Lue obtained a Bachelor of Computer Modeling (Software Engineering) Degree from the University Science of Malaysia in 2000. He also obtained a professional certification, i.e. Sun Certified Programmer for Java 2 platform in 2002. He is currently pursuing a Master Degree, Business Studies/Administration/Management (MBA).

Mr Lue has experience in full e-commerce application analysis, design, development, implementation and support together with technical documentation and product training. Prior to joining GFES in 2003, he was attached to NetInfinium Corporation Sdn Bhd and has implemented a few major projects, i.e. Online Payment Exchange System in a few major banks in Thailand and Malaysia and Biller Consolidator System integration with payment system in Thailand and Malaysia and Generic Payment Gateway System.

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Ismail Azizi, aged 34, is the Project Manager of Grand-Flo and currently responsible for R&D and project management for all bar code solutions. This includes project scoping, software programming, application development, project management, field installation and implementation.

En Ismail obtained a Bachelor Degree in Information Technology from the University of Southern Australia in 1997. He has 10 years of experience in software design and development from various IT related industries such as client server application that involved from small to large scale databases, barcode applications, data capturing systems, web forms designs, web database maintenance application, remote data capturing system. En Ismail also has implemented many barcode related applications in the semiconductor industries as well as in manufacturing, warehousing and retail markets which include Solectron Technology Sdn Bhd, Malaysia Automotive Lighting, Diethelm Holdings (M) Bhd and Citigroup Trade Services (M) Sdn Bhd.

Tan Gim Ling, aged 31, is the System Consultant of the Group and his job functions are principally involved in product software configuration, connectivity software, development of bar code printing software, perform field presentations/demonstrations to customers and others.

Mr Tan graduated with a Bachelor of Information Technology Degree from the University of Southern Queensland in 2001. Mr Tan was engaged in the education industry in the IT field for more than 8 years. Prior to joining GFES in 2001, he was a lecturer in Intec College (Penang), Systematic College (Penang), Strategic Business School (Prai) and INFO NET (Penang and Prai). He was also involved in industrial trainings, which include bar-coding activities.

Harold Kong Ee Hin, aged 29, is the Application Consultant of the Group, responsible for providing hardware and software technical pre and post sales support for all network systems. Mr Kong graduated with a Bachelor of Information Technology Degree from the University of Southern Queensland, Australia in 2001. Upon graduation, he joined GFES.

Mr Kong is experienced in bar code industry such as barcode applications from batch to RF data capturing systems, remote data capturing system via web, telnet and ftp. He has implemented many barcode related applications for companies in the semiconductor industry, manufacturing, warehousing and retail markets such as Western Digital (M) Sdn Bhd, FNN Dairies Berhad, Infineon Technologies (Malaysia) Sdn Bhd and Diethelm Holdings (M) Bhd.

Mark Chan Chun Jet, aged 31, is the Account Manager of the Group. Mr Chan is responsible for identifying and providing solutions on EDCCS to corporate clients. He is also in charge of managing the business partners of the company. Upon obtaining an Advance Diploma in ABE, London in 1996, Mr Chan joined a marketing company as Service Administration Supervisor for one and a half year. He subsequently joined an IT company and in 1998 to 2002, he was attached to two (2) IT companies as Account Manager. He subsequently joined another IT company as Corporate Account Manager. He left the company and joined GFES in 2003.

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Koo Khee Leong, aged 30, is the System Consultant of the Group, responsible for product development for all EDCCS solution transacted by the Group.

Prior to joining Grand-Flo, he was attached to a few companies relating to IT industry for nearly ten (10) years. He has experience in installation and configuration of Wireless Warehouse Management System ("WMS") and Intermec Wireless device to WMS system and inventory data capturing. Mr Koo is well versed in amongst others, Visual Studio 6, Embedded Visual Tools, EZBuilder, Bar Tender, Codespot, Power builder 6, C++.

Toh Yik Sing, aged 25, is the System Consultant of the Group, responsible for product development for all EDCCS solution transacted by the Group.

Prior to joining GFES, Mr Toh was attached to Epson Precision (M) Sdn Bhd for two (2) years as an Analyst Programmer III and exposed to amongst others, hardware and software maintenance and installation, ERP conversion and implementation and system conversion. He is also well versed in Visual Basics, Vfoxpro, HTML, VBScript, Java, XML, Progress, Pascal, RDBS, MS SQL, Access, Oracle SQL Plus, Progress Database OS and Unix.

- (ii) Save as disclosed below, none of the key personnel have any shareholdings (both direct and indirect) in Grand-Flo:-

	Nationality	Designation	Before the Subscription and Public Issue				After the Subscription and Public Issue [^]			
			Shareholding		Shareholding		Shareholding		Shareholding	
			Direct	%	Indirect	%	Direct	%	Indirect	%
Key Personnel										
Tan Bak Hong	Malaysian	Chairman/ Managing Director	844,808	3.00	14,079,975 ^{*1}	50.00	844,808	1.69	17,052,011 ^{*1}	34.10
Tan Bak Leng	Malaysian	Executive Director	7,603,181	27.00	-	-	7,603,181	15.21	-	-
Moi Ming Hwei	Malaysian	Executive Director	2,815,993	10.00	-	-	3,300,000	6.60	-	-
Lim Soon Seong	Malaysian	Executive Director	-	-	-	-	1,800,000	3.60	-	-
Yap Li Li	Malaysian	Vice President, Operations	10	*	14,924,773 ^{*2}	53.00	10	*	17,896,809 ^{*2}	35.79
Lim Peik Gan	Malaysian	Finance Executive	-	-	-	-	250,000	0.50	-	-
Lue Lek Huat	Malaysian	Senior Project Consultant	-	-	-	-	200,000	0.40	-	-
Ismail Azizi	Malaysian	Project Manager	-	-	-	-	150,000	0.30	-	-
Tan Gim Ling	Malaysian	System Consultant	-	-	-	-	122,000	0.24	-	-
Harold Kong Ee Hin	Malaysian	Application Consultant	-	-	-	-	100,000	0.20	-	-
Mark Chan Chun Jet	Malaysian	Account Manager	-	-	-	-	50,000	0.10	-	-
Koo Khee Leong	Malaysian	System Consultant	-	-	-	-	30,000	0.06	-	-
Toh Yik Sing	Malaysian	System Consultant	-	-	-	-	30,000	0.06	-	-

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

Notes:-

* *Negligible.*

^ *Assume the key personnel take up their respective entitlements to the pink form shares allocation and no exercise of ESOS options.*

*1 *Deemed interested by virtue of his shareholdings in Grand-Flo Corp and his spouse's, Yap Li Li, shareholdings in Grand-Flo.*

*2 *Deemed interested by virtue of her shareholdings in Grand-Flo Corp and her spouse's, Tan Bak Hong, shareholdings in Grand-Flo.*

- (iii) None of the key personnel holds or have held any directorships and/or substantial shareholdings (5% or more of the issued and paid-up share capital) in any other public companies during the past two (2) years.
- (iv) None of the key personnel are or were involved in the following events:-
- (a) A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation in which he was a director or key personnel;
- (b) Conviction in a criminal proceedings or is a named subject of a pending criminal proceeding; or
- (c) The subject of any order, judgement or ruling of any court of competent jurisdiction, tribunal or government body temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.
- (v) None of the key personnel have entered into any service agreements, which is not terminable by notice without payments or compensation other than statutory compensation, with the Group.
- (vi) As at the date of this Prospectus, none of the key personnel of the Group is involved in the operations of other business or corporations, save and except for the operations of the Group.

8.5 RELATIONSHIP AND ASSOCIATES

Save for the following, there are no family or business relationships amongst the substantial shareholders, Promoters, directors, key management and technical personnel of the Company:-

- (a) Tan Bak Hong and Yap Li Li are spouses; and
- (b) Tan Bak Hong and Tan Bak Leng are siblings.

8 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

8.6 CHANGES IN MAJOR SHAREHOLDERS AND THEIR RESPECTIVE SHAREHOLDINGS IN GRAND-FLO SINCE INCORPORATION

The changes in the shareholdings of the major shareholders since the date of incorporation are as follows:-

	As at incorporation				As at 5 February 2004			
	← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →	
	Direct	%	Indirect	%	Direct	%	Indirect	%
Tan Bak Hong	10	50.00	10 ^{*1}	50.00	10	50.00	10 ^{*1}	50.00
Tan Bak Leng	-	-	-	-	-	-	-	-
Moi Ming Huei	-	-	-	-	-	-	-	-
Tan Chuan Hock	-	-	-	-	-	-	-	-
Grand-Flo Corp	-	-	-	-	-	-	-	-
Yap Li Li	10	50.00	10 ^{*2}	50.00	10	50.00	10 ^{*2}	50.00

	After Acquisition				After Subscription			
	← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →	
	Direct	%	Indirect	%	Direct	%	Indirect	%
Tan Bak Hong	844,808	3.00	14,079,975 ^{*1}	50.00	844,808	2.41	17,052,011 ^{*1}	48.72
Tan Bak Leng	7,603,181	27.00	-	-	7,603,181	21.72	-	-
Moi Ming Huei	2,815,993	10.00	-	-	3,000,000	8.57	-	-
Tan Chuan Hock	2,815,993	10.00	-	-	5,000,000	14.29	-	-
Grand-Flo Corp	14,079,965	50.00	-	-	17,052,001	48.72	-	-
Yap Li Li	10	*	14,924,773 ^{*2}	53.00	10	*	17,896,809 ^{*2}	51.13

	After Public Issue			
	← No. of Grand-Flo Shares →		← No. of Grand-Flo Shares →	
	Direct	%	Indirect	%
Tan Bak Hong	844,808	1.69	17,052,011 ^{*1}	34.10
Tan Bak Leng	7,603,181	15.21	-	-
Moi Ming Huei	3,300,000	6.60	-	-
Tan Chuan Hock	5,000,000	10.00	-	-
Grand-Flo Corp	17,052,001	34.10	-	-
Yap Li Li	10	*	17,896,809 ^{*2}	35.79

Notes:-

* Negligible.

*1 Deemed interested by virtue of his shareholdings in Grand-Flo Corp and his spouse's, Yap Li Li, shareholdings in Grand-Flo.

*2 Deemed interested by virtue of her shareholdings in Grand-Flo Corp and her spouse's, Tan Bak Hong, shareholdings in Grand-Flo.

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9 APPROVALS AND CONDITIONS

9.1 CONDITIONS TO THE APPROVALS AND COMPLIANCE THEREOF

The SC and Bursa Securities approved the Public Issue on 20 August 2004 and 23 August 2004 respectively. The conditions imposed by the SC and Bursa Securities and the status of compliance are set out as follows:-

Authority	Details of conditions imposed	Status of compliance
Bursa Securities	Grand-Flo to notify Bursa Securities on the exact amount to be declared by GFES as dividend supported by the Reporting Accountant's confirmation on the adequacy of retained earnings and funds in GFES. In addition, the Board of Grand-Flo is to ensure that the above dividend payment would not reduce the NTA of GFES to be less than the NTA as at 31 December 2003.	Complied.
	Grand-Flo to inform Bursa Securities on the appointment of independent directors and to provide confirmation that they qualify as independent directors as defined in the Listing Requirements of Bursa Securities for the MESDAQ Market.	Complied.
	Grand-Flo to include a negative statement in its prospectus on the exclusion of profit forecast and projections from the prospectus and reasons thereof.	Complied. Please refer to Section 6.5 of this Prospectus.
SC	Grand-Flo should disclose the status of the utilisation of the listing proceeds in its quarterly and annual reports until the proceeds are fully utilised.	To be complied. The Board undertakes to comply with this condition.
	Kenanga / Grand-Flo should inform SC upon the completion of the listing proposal.	To be complied. The Board undertakes to comply with this condition.

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9 APPROVALS AND CONDITIONS (Cont'd)

9.2 MORATORIUM ON PROMOTERS' SHARES

In compliance with the Listing Requirements, the Grand-Flo Shares held by the Promoters amounting to 45% of the enlarged share capital of Grand-Flo at the date of admission, as tabulated below, and any interest therein may not be sold, transferred, assigned or otherwise disposed of, within one (1) year from the date of admission of Grand-Flo to the Official List of the MESDAQ Market. Thereafter, they are permitted to sell, transfer, assign or otherwise dispose of up to a maximum of one third per annum on a straight-line basis of their respective shareholdings in the Company, which is under moratorium.

The Grand-Flo Shares held by the Promoters which are under moratorium are as follows:-

	No of Grand-Flo Shares held after Subscription and Public Issue *				No. of Grand-Flo Shares under moratorium	
	Direct	%	Indirect	%		%
<i>Promoters</i>						
Tan Bak Hong	844,808	1.69	17,052,011 ^{*1}	34.10	844,000	1.69
Tan Bak Leng	7,603,181	15.21	-	-	5,687,000	11.37
Moi Ming Huei	3,300,000	6.60	-	-	2,353,000	4.71
Lim Soon Seong	1,800,000	3.60	-	-	1,267,000	2.53
Grand-Flo Corp	17,052,001	34.10	-	-	12,349,000	24.70
	30,599,990	61.20			22,500,000	45.00

Notes:-

* No ESOS will be exercised as at the date of the admission of Grand-Flo on the MESDAQ Market.

*1 Deemed interested by virtue of his shareholdings in Grand-Flo Corp and his spouse's, Yap Li Li, shareholdings in Grand-Flo.

The restriction is specifically endorsed on the share certificates of Grand-Flo representing the shareholding of the aforesaid shareholders, which are under moratorium to ensure that the Company's Share Registrars will not register any transfer not in compliance with the aforesaid restriction.

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10 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS

- 10.1 Save as disclosed below, there have been no related-party transactions, existing or proposed entered into by the Grand-Flo Group which involves the interest, direct or indirect, of a director, major shareholder or person connected with such director or major shareholder, within the meaning of the Listing Requirements:-
- (a) Tenancy Agreement dated 1 November 2003 between GFESS as landlord and Grand-Flo as tenant, in respect of the tenancy of the premises bearing address Lot 4 Jalan SS13/4, 47500 Subang Jaya Selangor Darul Ehsan at a monthly rental of RM800.00 for a term of 3 years commencing on 1 November 2003 (with an option to extend for a further term of 1 year);
 - (b) Tenancy Agreement dated 1 November 2003 between GFESS as landlord and GFES as tenant, in respect of the tenancy of the premises bearing address No. 92 Persiaran Bayan Indah, Bayan Bay, 11900 Penang at a monthly rental of RM1,020 for a term of 3 years commencing on 1 November 2003 (with an option to extend for a further term of 1 year); and
 - (c) Tenancy Agreement dated 1 November 2003 between GFESS as landlord and GFES as tenant, in respect of the tenancy of the premises bearing address Lot 4 Jalan SS13/4, 47500 Subang Jaya Selangor Darul Ehsan at a monthly rental of RM3,000 for a term of 3 years commencing on 1 November 2003 (with an option to extend for a further term of 1 year).
- 10.2 None of the Directors and/or substantial shareholders of the Company and/or person(s) connected with any of them have any interest, direct or indirect, in the promotion of or in any material assets which have, within the two (2) years preceding the date of this Prospectus, been acquired or disposed of by or leased to any of the companies within the Grand-Flo Group, or are proposed to be acquired, or disposed of by or leased to any of the companies within the Grand-Flo Group.
- 10.3 Save as set out below, none of the Directors and/or substantial shareholders of Grand-Flo have any interest, direct or indirect, in any businesses and corporations carrying on a similar trade as that of the Grand-Flo Group.

Director	Name of Company	Directorship		Shareholding	
		Date of Appointed	Date of Resignation	Direct (%)	Indirect (%)
Tan Chuan Hock	Orisoft Technology Berhad ("Orisoft")	15 April 2003	-	14.7	-
	Netinfinium Corporation Sdn Bhd ("Netinfinium")	-	-	20.0	-

Orisoft is principally involved in the development and sale of human resource management system ("HRMS") software solutions. Orisoft's HRMS provides cost effective solutions and enhances productivity by facilitating and assisting human resources management and reporting functions.

Netinfinium is principally involved in web development, services and solutions.

Grand-Flo is involved in the provision of EDCCS solutions, which delivers systems that complement the ERP systems by providing real time information and increased data accuracy to improve efficiency in the business processes.

10 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)

The Group believes that Grand-Flo will not be in direct competition with Orisoft and Netinfinium, respectively after taking into consideration of these companies' distinct business activities. In addition, Mr Tan Chuan Hock does not hold an executive role in Grand-Flo, Orisoft and Netinfinium.

10.4 Declaration of Advisers

- (i) Kenanga hereby confirms that there are no existing or potential conflicts of interest in its capacity as the Adviser for the Public Issue.
- (ii) Messrs. Enlil Loo Advocates and Solicitors has given its confirmation that there are no existing or potential conflicts of interest in its capacity as the Corporate and Due Diligence Solicitors for the Public Issue.
- (iii) Messrs. RK & Associates has given its confirmation that there are no existing or potential conflicts of interest in its capacity as Reporting Accountant for the Public Issue.
- (iv) Messrs. Horwath has given its confirmation that there are no existing or potential conflicts of interest in its capacity as Auditors of the Company.

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11 OTHER INFORMATION CONCERNING THE GROUP

11.1 REAL PROPERTY

As at 27 September 2004, GFES owns the following properties:-

- (a) Parcel No. D16-GF, Level No. Ground Floor, Block D, measuring in area of approximately 1,493 square feet or thereabouts, now bearing postal address No. 3-1, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan;
- (b) Parcel No. D16-L1, Level 1st Floor, Block D, measuring in area of approximately 1,704 square feet or thereabouts, now bearing postal address No. 3-2, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan;
- (c) Parcel No. D16-L2, Level 2nd Floor, Block D, measuring in area of approximately 1,704 square feet or thereabouts, now bearing postal address No. 3-3, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan;
- (d) Parcel No. D16-L3, Level 3rd Floor, Block D, measuring in area of approximately 1,704 square feet or thereabouts, now bearing postal address No. 3-4, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan; and
- (e) Parcel No. D16-L4, Level 4th Floor, Block D, measuring in area of approximately 1,704 square feet or thereabouts, now bearing postal address No. 3-5, Block D2, Jalan PJU 1/39, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan,

all forming a five (5) storey shop-offices building erected on and held under Master Title Geran 46494 for Lot No. 42410, Pekan Cempaka, District of Petaling, State of Selangor (formerly known as Lot 42410, H.S. (D) 135924, previously part of Geran 35997 Lot No. 102, Geran 40176 Lot 15386 and Geran 43061 Lot 15386 Mukim of Sungai Buloh, District of Petaling). The land use category for the above is commercial.

The Master Title is registered under the name of Puncak Kencana Sdn Bhd. The individual strata titles in respect of the above properties have not to-date been issued. The above properties are freehold in tenure and the certificate of fitness in respect of the shop-offices building erected thereon was obtained on 17 July 1999. The age of the shop-office building is approximately five (5) years. The above properties are encumbered to Malayan Banking Berhad. There is no restriction in interest imposed on the above properties. Parcel (a) and (b) are currently tenanted as office use, whilst Parcels (c), (d) and (e) are vacant.

A sale and purchase agreement was entered into for the purchase by GFES from Southwaters Sdn Bhd of the above properties on 24 May 2004. The total cost of the land is RM1,700,000.00

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11 OTHER INFORMATION CONCERNING THE GROUP (Cont'd)

11.2 LICENCES AND PERMITS

(a) Contractor Registration

Relevant Authority	:	Ministry of Finance ("MOF")
Date of Registration	:	17 July 2002
Validity Period	:	Commencing 16 July 2002 and expiring 15 July 2005
Particulars	:	Registered with MOF as contractor for supplies/services under the following headings and sub-headings:- 210105 Other Computer Related Services 210106 Networking Products & Services

(b) Contractor Registration

Relevant Authority	:	Telekom Berhad
Date of Registration	:	23 July 2002
Validity Period	:	Commencing 23 July 2002 and expiring 23 July 2004. Currently pending renewal.
Particulars	:	Registered with Telekom as contractor for the following services:- Other Computer Related Services Networking Products & Services

(c) Contractor Registration

Relevant Authority	:	Tenaga Nasional Berhad
Date of Registration	:	17 August 2002
Validity Period	:	Expiring 15 July 2005
Particulars	:	Registered with Tenaga Nasional Berhad as contractor for the following services:- Other Computer Related Services Networking Products & Services

(d) Class Assignment

Pursuant to the Communications and Multimedia Act 1998, the Malaysian Communications and Multimedia Commission 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.

In this respect, the Grand-Flo Group has obtained the due certifications from Sirim Qas Sdn Bhd for all products and equipment of the Grand-Flo Group, which make use of the spectrum.

11 OTHER INFORMATION CONCERNING THE GROUP (Cont'd)

11.3 MSC-STATUS

Grand-Flo obtained its MSC status on 14 May 2004. Having qualified for MSC status, Grand-Flo is expected to operate according to the following conditions to maintain the preferential status:-

- (a) commence operations of and undertake the MSC-Qualifying Activities within six (6) months from the date of approval with any proposed changes being first consented to by MDC;
- (b) locate the implementation and operation of the MSC-Qualifying Activities in Cyberjaya within six (6) months from the date of the approval and will seek MDC's prior written approval in the event of any changes in the location or address of the Company;
- (c) ensure that at all times at least 15% of the total number of employees (excluding support staff) of the Company shall be "knowledge workers" (as defined by MDC);
- (d) continuously comply with the MSC's environmental guidelines as determined by MDC from time to time;
- (e) submit to MDC a copy of the Company's Annual Report and Audited Statements in parallel with submission to the CCM;
- (f) inform and obtain the prior written approval of MDC for any proposed change in the name of Grand-Flo;
- (g) inform MDC of any change in equity structure or shareholdings structure of Grand-Flo or such other changes that may affect the direction or operation of Grand-Flo; and
- (h) comply with all such statutory, regulatory and/or licensing requirements as may be applicable.

The MSC status granted to Grand-Flo shall not be transferable or assignable in any way whatsoever without the written consent of MDC.

All the conditions stated above have been complied with and noted by Grand-Flo save for (b) and (g) above. The Company will inform the MDC on changes in equity structure or shareholdings structure upon completion of the Public Issue. In addition, the Company is currently negotiating with Technology Park Malaysia for the renting of a premise in Cyberjaya.

MSC status entitles Grand-Flo to the incentives, rights and privileges provided for under the Bill of Guarantees subject to the Company's continued adherence to the necessary set of criteria. The clauses of the Bill of Guarantees, inter-alia, are as follows:-

- (a) To provide a world-class physical and information infrastructure;
- (b) To allow unrestricted employment of local and foreign knowledge workers;
- (c) To ensure freedom of ownership by exempting companies with MSC status from local ownership requirements;
- (d) To give the freedom to source capital globally for MSC infrastructure and the right to borrow funds globally; and
- (e) To provide competitive financial incentives, including Pioneer Status (100% tax exemption) for up to ten (10) years or an investment tax allowance for up to five (5) years and no duties on the importation of multimedia equipment.

Grand-Flo intends to capitalise on this prestigious credential not only as a marketing tool but also to benefit from the various incentives provided as set out in the Bill of Guarantees above.



GRAND-FLO SOLUTION BERHAD

(Company Registration No : 607392 W)

Third Floor, No. 79 (Room A)
Jalan SS21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan

13 OCT 2004

The Shareholders of Grand-Flo Solution Berhad

Dear Sir/ Madam

On behalf of the Board of Directors of Grand-Flo Solution Berhad ("Grand-Flo"), I report after due enquiry that during the period from 30 June 2004 (being the date of the last audited proforma accounts of Grand-Flo and subsidiaries were made) to **13 OCT 2004** (being a date not earlier than fourteen (14) days before the issuance of this Prospectus) :-

- (i) the business of the Company and its subsidiaries ("Group") have, in the opinion of the Directors, has been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (v) the Group has no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which they are aware of; and
- (vi) save as disclosed in the Accountants' Report and proforma consolidated balance sheets in this Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Group.

Yours faithfully
For and on behalf of the Board of Directors
Grand-Flo Solution Berhad



Tan Bak Hong
Managing Director

13 ACCOUNTANTS' REPORT
(Prepared for the inclusion in this Prospectus)

R.K. & ASSOCIATES AF 0943
Chartered Accountants

12 OCT 2004

The Board of Directors
Grand-Flo Solution Berhad
Third Floor, No. 79 (Room A)
Jalan SS21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

1. INTRODUCTION

This Report has been prepared by an approved company auditor for the inclusion in the Prospectus to be dated **15 OCT 2004** in connection with the Subscription of 6,840,050 ordinary shares of RM0.10 each in Grand-Flo Solution Berhad ("Grand-Flo" or "the Company") by certain interested investors at an issue price of RM0.10 each, Public Issue of 15,000,000 new ordinary shares of RM0.10 each in Grand-Flo at an issue price of RM0.50 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each in Grand-Flo on the MESDAQ Market of Bursa Malaysia Securities Berhad ("MESDAQ Market").

2. LISTING PROPOSALS ("PROPOSALS")

Proposals of Grand-Flo involves the following transactions:

(i) Subscription

Subscription of 6,840,050 ordinary shares of RM0.10 each in Grand-Flo by certain interested investors at an issue price of RM0.10 each.

(ii) Public Issue

Public Issue of 15,000,000 new ordinary shares of RM0.10 each in Grand-Flo at an issue price of RM0.50 per share.

The issue of a total of 15,000,000 shares representing 30% of the enlarged issued and paid-up share capital of 50,000,000 shares, is to be allocated to individuals, companies, societies, co-operatives, institutions, directors, employees and business associates.

(iii) Listing and Quotation

Listing of and quotation for the entire enlarged issued and paid up share capital of Grand-Flo of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each on the MESDAQ Market.

(iv) Employee Shares Option Scheme ("ESOS")

ESOS involving up to 5% of Grand-Flo's enlarged issued and paid up share capital at any time during the existence of the ESOS, to be issued pursuant to the options to be granted under ESOS to the executive directors and eligible employees of the Group.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

3. GENERAL INFORMATION

3.1 PARTICULARS ON GRAND-FLO

3.1.1 Incorporation

The Company was incorporated in Malaysia under the Companies Act, 1965 on 26 February, 2003 as a private company limited by shares under the name of Excellent Breakthrough Sdn. Bhd. which was subsequently changed to Indigenous Solution Sdn. Bhd. before finally being named as Grand-Flo Solution Sdn. Bhd. Grand-Flo was converted into a public limited company on 10 February 2004 and assumed its present name in connection with its Listing and Quotation. On 14 May 2004, Grand-Flo was granted MSC status by MDC and is presently in the process of obtaining the Pioneer Status under Section 4A of the Promotion of Investments (Admendment) Act 1986.

The principal activities of Grand-Flo are the provision of information technology solutions and investment holdings.

3.1.2 Share Capital

At the date of incorporation, the Company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each. On 1 October 2004, the authorised share capital was increased from RM100,000 to RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each.

The changes of the Company's issued and fully paid-up share capital since the date of incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Resultant issued and paid-up share capital	Total issued and paid-up share capital (cumulative) (RM)
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

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

3. GENERAL INFORMATION

3.2 PARTICULARS ON GFES

3.2.1 Incorporation

GFES was incorporated in Malaysia under the Companies Act, 1965 on 3 January, 1996 as a private limited company. Its present authorised share capital is RM500,000 comprising of 500,000 ordinary shares of RM1.00 each whilst its issued paid-up share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each.

GFES is principally involved in the provision of integrated Enterprise Data Collection and Collation System ("EDCCS") solutions.

3.2.2 Share Capital

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

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Resultant issued and paid-up share capital	Total issued and paid-up share capital (cumulative) (RM)
03.01.96	2	1.00	Subscribers' shares	2	2
09.02.96	99,998	1.00	Cash	100,000	100,000
21.07.99	100,000	1.00	Cash	200,000	200,000
26.04.04	300,000	1.00	Bonus issue	500,000	500,000

3.3 PARTICULARS ON GRAND-FLO SYSTEMS (S) PTE. LTD. ("GFS")

3.3.1 Incorporation

GFS was incorporated in Singapore under the Singapore Companies (Amendment) Act, 2002 on 11 March, 2004 with an authorised share capital of SGD1,000,000 comprising 1,000,000 ordinary shares of SGD1 each.

GFS is a 51% owned subsidiary of Grand-Flo and is principally involved in the provision of integrated EDCCS solutions.

3.3.2 Share Capital

The changes of the Company's issued and fully paid-up share capital since the date of incorporation are as follows:-

Date of allotment	No. of ordinary shares allotted	Par value (SGD)	Consideration	Resultant issued and paid-up share capital	Total issued and paid-up share capital (cumulative) (SGD)
11.03.04	50,000	1.00	Subscribers' shares	50,000	50,000

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

4. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This report has been prepared based on the audited financial statements of Grand-Flo and its subsidiaries which have been prepared in accordance with applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board ("MASB") and is presented on a basis consistent with the accounting policies normally adopted by the Grand-Flo Group.

5. FINANCIAL STATEMENTS AND AUDITORS

Horwath was appointed as the first auditors for Grand-Flo. The financial statements of GFES of all financial years under review in this report are audited by another firm of auditors, with the exception of the year ended 31 December 2003 and the period ended 30 June 2004, which were audited by Horwath. The financial statements of GFS is audited by Saw Meng Tee & Co.

The latest audited financial statements for all companies are in respect of the six month period ended 30 June, 2004.

There is no reservation or qualification in the auditor's reports for the above companies in all the financial statements covered in this report.

6. SIGNIFICANT POST BALANCE SHEET EVENTS

Subsequent to the last audited balance sheet as at 30 June 2004, Grand-Flo has undertaken the following material transactions :-

- (a) On 27 September 2004, GFES paid a net dividend of RM817,287 to the shareholders of GFES by the Board of Directors of GFES. The dividend is paid out of retained earnings of GFES ("Dividend Payment").
- (b) On 1 October 2004, Grand-Flo acquired 500,000 ordinary shares of RM1.00 each in GFES for a purchase consideration of RM2,815,993 based on its audited net tangible assets ("NTA") as at 31 December 2003 satisfied in full by the issuance of 28,159,930 new ordinary shares of RM0.10 each in Grand-Flo. The acquisition did not give rise to any goodwill ("Acquisition of GFES").

Other than the above, we are not aware of any other material subsequent event which would require any amount stated to be adjusted nor any further disclosure that is required to be made in this report.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

7. Summarised Income Statements

7.1 Proforma Consolidated Income Statement - Grand-Flo Group

The proforma consolidated results of Grand-Flo Group are set out below, based on their audited financial statements.

	← Year ended 31 December →					Period ended
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM	30 June 2004 RM
Revenue	5,325,582	8,982,905	7,689,806	8,515,114	11,226,607	6,960,459
Profit from operations	437,848	397,691	429,553	804,644	1,570,326	1,279,567
Non operating income	8,647	69,040	83,939	86,023	54,195	11,137
Earnings before interest, depreciation, taxation and amortisation (EBIDTA)	446,495	466,731	513,492	890,667	1,624,521	1,290,704
Finance cost	(8,689)	(11,263)	(10,762)	(46,262)	(48,686)	(38,232)
Depreciation	(60,593)	(68,105)	(70,549)	(97,472)	(160,128)	(88,926)
Amortisation of investment	-	(1,390)	(1,390)	(1,390)	(1,390)	(11,032)
Profit before taxation	377,213	385,973	430,791	745,543	1,414,317	1,152,514
Taxation	(14,129)	(120,000)	(137,803)	(225,265)	(410,164)	(313,450)
Profit after taxation	363,084	265,973	292,988	520,278	1,004,153	839,064
Minority interests	-	-	-	-	-	1,468
Profit attributable to shareholders	363,084	265,973	292,988	520,278	1,004,153	840,532
Dividend per share (sen)	-	-	-	-	-	-
No. of ordinary shares of RM0.10 each assumed in issue after the Acquisition of GFES and before Subscription and Public Issue (ii)	28,159,950	28,159,950	28,159,950	28,159,950	28,159,950	28,159,950
Gross EPS (sen)	1.340	1.371	1.530	2.648	5.022	4.093
Net EPS (sen)	1.289	0.945	1.040	1.848	3.566	2.985

- (i) There are no extraordinary or exceptional items in the financial years/period under review.
- (ii) The gross and net earning per share has been calculated based on the profit before taxation and profit after taxation for each financial year/period, and on the assumption that the issued and paid-up share capital of Grand-Flo of 28,159,950 (after Acquisition of GFES) ordinary shares of RM0.10 each has been issued throughout the years/period under review.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

7. Summarised Income Statements (Contd.)

7.2 Grand-Flo (Company Level)

The summarised Grand-Flo income statements are set out below, based on its audited financial statements.

	From 26 February, 2003 (date of incorporation) to 31 December, 2003	For the period ended 30 June, 2004
	RM	RM
Turnover	52,760	87,840
(Loss)/earnings before interest, depreciation, taxation and amortisation (EBIDTA)	(18,929)	45,982
Finance cost	-	-
Depreciation	-	(2,777)
Amortisation of investment	-	(11,032)
Profit/(loss) before taxation	(18,929)	32,173
Taxation	-	(7,400)
Profit/(loss) after taxation	(18,929)	24,773
Dividend per share (sen)	-	-
No. of ordinary shares in issue	2	20
Gross EPS (sen)	(946,450)	160,865
Net EPS (sen)	(946,450)	123,865

Notes:-

- (i) There were no extraordinary or exceptional items in the years/period under review.

13 ACCOUNTANTS' REPORT (Cont'd)

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7. Summarised Income Statements (Contd.)

7.3 GFES

The summarised income statements of GFES are set out below, based on its audited financial statements.

	← Year ended 31 December →					Period ended
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM	30 June 2004 RM
Revenue	5,325,582	8,982,905	7,689,806	8,515,114	11,226,607	6,952,087
Profit from operations	437,848	397,691	429,553	804,644	1,589,255	1,235,369
Non operating income	8,647	69,040	83,939	86,023	54,195	11,137
Earnings before interest, depreciation, taxation and amortisation (EBIDTA)	446,495	466,731	513,492	890,667	1,643,450	1,246,506
Finance cost	(8,689)	(11,263)	(10,762)	(46,262)	(48,686)	(38,232)
Depreciation	(60,593)	(68,105)	(70,549)	(97,472)	(160,128)	(84,937)
Amortisation of investment	-	(1,390)	(1,390)	(1,390)	(1,390)	-
Profit before taxation	377,213	385,973	430,791	745,543	1,433,246	1,123,337
Taxation	(14,129)	(120,000)	(137,803)	(225,265)	(410,164)	(306,050)
Profit after taxation	363,084	265,973	292,988	520,278	1,023,082	817,287
Dividend per share (sen)	-	-	-	-	-	-
No. of ordinary shares in issue	200,000	200,000	200,000	200,000	200,000	500,000
Gross EPS (sen)	188.607	192.987	215.396	372.772	716.623	224.667
Net EPS (sen)	181.542	132.987	146.494	260.139	511.541	163.457

Notes:-

- (i) There were no extraordinary or exceptional items in the years/period under review.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

7. Summarised Income Statements (Contd.)

7.4 Grand-Flo Systems (S) Pte. Ltd. ("GFS")

The summarised GFS income statements are set out below, based on its audited financial statement.

	From 11 March, 2004 (date of incorporation) to 30 June, 2004 RM
Turnover	<u>92,063</u>
Loss before interest, depreciation, taxation and amortisation (EBIDTA)	(1,803)
Finance cost	-
Depreciation	(1,212)
Amortisation of investment	-
Loss before taxation	(3,015)
Taxation	-
Loss after taxation	<u>(3,015)</u>
Dividend per share (sen)	-
No. of ordinary shares in issue	50,000
Gross EPS (sen)	(6.030)
Net EPS (sen)	(6.030)

Notes:-

(i) There were no extraordinary or exceptional items in the period under review.

* Average exchange rate used to convert Singapore Dollar to Ringgit Malaysia is SGD1 : RM2.2483.

8. Dividends

No dividend was paid or declared by Grand-Flo, GFES or GFS for all the financial years/period under review.

13 ACCOUNTANTS' REPORT (Cont'd)

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9. Summarised Balance Sheets

No proforma consolidated balance sheets have been prepared for the end of each of the financial years/period under review as it is more appropriate to present the financial position for each of the financial years/period based on an individual company basis. The respective individual company's balance sheets were not significantly affected by any transaction nor balances between the companies involved.

9.1 Grand-Flo (Company Level)

The summarised balance sheets of Grand-Flo are set out below, based on its audited financial statements.

	As at 31 December 2003 RM	As at 30 June 2004 RM
Non-Current Assets		
Investment in a subsidiary	-	58,210
Equipment	-	24,992
Development costs	-	99,291
	-	182,493
Current Assets		
Deposit and prepayment	-	31,600
Amount owing by a related party (Note 1)	52,760	-
Cash and bank balances	2	7,104
	52,762	38,704
Current Liabilities		
Other payables and accruals	-	12,316
Amount due to a related party (Note 1)	71,689	195,635
Provision for taxation	-	7,400
	71,689	215,351
Net Current Liabilities	(18,927)	(176,647)
	(18,927)	5,846
Financed by :-		
Share Capital	2	2
Retained profits/(Accumulated losses)	(18,929)	5,844
Shareholders' equity	(18,927)	5,846
No. of ordinary shares in issue	2	20
Net tangible assets per share (sen)	(946,350.0)	(467,225.0)

Note :-

1. Related party refers to GFES.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

9. Summarised Balance Sheets (Contd.)

9.2 GFES

The summarised balance sheets of GFES are set out below, based on its audited financial statements.

	As at 31 December					As at
	1999	2000	2001	2002	2003	30 June
	RM	RM	RM	RM	RM	2004
						RM
Non-Current Assets						
Plant and equipment	307,467	317,823	267,115	436,467	691,275	670,525
Other investment	-	68,096	66,706	65,316	63,926	63,926
	<u>307,467</u>	<u>385,919</u>	<u>333,821</u>	<u>501,783</u>	<u>755,201</u>	<u>734,451</u>
Current Assets						
Inventories	1,273,520	1,150,453	1,301,335	1,122,631	2,161,114	1,359,460
Trade receivables	1,486,963	1,606,748	1,053,748	1,341,581	2,716,042	2,790,744
Other receivables, deposits and prepayments	11,360	19,806	19,737	10,864	47,023	260,637
Amount owing by holding company (Note 1)	-	134,394	1,239,214	441,653	443,123	443,123
Amount owing by related company (Note 2)	814,951	1,020,747	376	154,159	10,415	7,697
Amount owing by related party (Note 3)	-	-	-	-	71,689	195,635
Amount due from a director	-	28,910	18,910	-	-	-
Fixed deposit with licensed bank	-	-	214,669	402,498	542,441	550,578
Cash and bank balances	46,685	237,218	32,370	11,686	144,871	253,016
	<u>3,633,479</u>	<u>4,198,276</u>	<u>3,880,359</u>	<u>3,485,072</u>	<u>6,136,718</u>	<u>5,860,890</u>
Current Liabilities						
Trade payables	2,236,133	2,468,651	1,951,645	875,728	2,337,372	1,356,359
Other payables and accruals	277,367	361,230	316,097	201,031	221,493	82,023
Amount owing to holding company (Note 1)	12,000	-	-	-	-	-
Amount owing to related party (Note 3)	-	-	-	-	52,760	-
Amount due to a director	156,161	171,162	56,244	200,000	-	-
Taxation	-	90,871	111,894	57,000	213,719	370,721
Short-term borrowings	449,688	438,694	454,231	709,730	1,130,139	1,060,019
	<u>3,131,349</u>	<u>3,530,608</u>	<u>2,890,111</u>	<u>2,043,489</u>	<u>3,955,483</u>	<u>2,869,122</u>
Net Current Assets	<u>502,130</u>	<u>667,668</u>	<u>990,248</u>	<u>1,441,583</u>	<u>2,181,235</u>	<u>2,991,768</u>
	<u>809,597</u>	<u>1,053,587</u>	<u>1,324,069</u>	<u>1,943,366</u>	<u>2,936,436</u>	<u>3,726,219</u>
Represented by:-						
Share capital (Note 4)	200,000	200,000	200,000	200,000	200,000	500,000
Retained profits	513,672	779,645	1,072,633	1,592,911	2,615,993	3,133,280
Shareholders' equity	<u>713,672</u>	<u>979,645</u>	<u>1,272,633</u>	<u>1,792,911</u>	<u>2,815,993</u>	<u>3,633,280</u>
Non-Current Liabilities						
Hire purchase creditors	65,925	38,942	14,436	106,455	76,443	48,939
Deferred taxation	30,000	35,000	37,000	44,000	44,000	44,000
	<u>809,597</u>	<u>1,053,587</u>	<u>1,324,069</u>	<u>1,943,366</u>	<u>2,936,436</u>	<u>3,726,219</u>
No. of ordinary shares in issue	200,000	200,000	200,000	200,000	200,000	500,000
Net tangible assets per share (sen)	356.8	489.8	636.3	896.5	1,408.0	726.7

13 ACCOUNTANTS' REPORT (Cont'd)

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9. Summarised Balance Sheets

9.2 GFES - (Continued)

Note :-

1. Holding company refers to Grand-Flo Corporation Sdn. Bhd. ("Grand-Flo Corp"), the existing holding company of GFES. The amount owing by the holding company has been fully settled on 27 September 2004 upon the Dividend Payment.
2. Related company refers to Grand-Flo Engineering Supply & Service Sdn. Bhd. ("GFESS"), being a subsidiary of Grand-Flo Corp. The amount has been fully settled on 20 September 2004.
3. Related party refers to Grand-Flo.
4. The issued and paid up share capital of GFES was increased from RM200,000 to RM500,000 by way of a bonus issue on 26 April 2004.

9.3 GFS

The summarised balance sheets of GFS are set out below, based on its audited financial statements.

	As at 30 June 2004 RM
Non-Current Assets	
Fixed assets	4,773
Current Assets	
Inventories	34,621
Trade receivables	29,212
Bank balance	65,627
	129,460
Current Liabilities	
Trade payables	25,400
Accruals	1,107
	26,507
Net Current Assets	102,953
	107,726
Financed by :-	
Share Capital	110,695
Accumulated losses	(2,969)
Shareholders' equity	107,726
No. of ordinary shares in issue	50,000
Net tangible assets per share	215.5

* Exchange rate used to convert Singapore Dollar to Ringgit Malaysia as at 30 June 2004 is SGD1 : RM2.2139.

13 ACCOUNTANTS' REPORT (Cont'd)

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10. Statement of Assets and Liabilities

The Proforma Consolidated Statement of Assets and Liabilities of Grand-Flo and its subsidiaries are provided for illustrative purposes only to show the effects of the Dividend Payment, Acquisition of GFES, Subscription, Public Issue of 15,000,000 new ordinary shares of RM0.10 each in Grand-Flo and listing of and quotation for the entire enlarged issued and paid up share capital of Grand-Flo of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each, utilisation of proceeds and the shares to be issued pursuant to the exercise of ESOS, with the assumption that these transactions were completed on 30 June 2004. The proforma statements should also be read in conjunction with the notes set out in Item 11.

	Group	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V	
	Grand-Flo as	After	After	After	After	After	
	at 30 June	Dividend	Proforma I	Proforma II	Proforma III	Proforma IV	
	2004	Payment and	and	and Listing	and	After	
	RM	Acquisition	Subscription	and Quotation	utilisation of	Proforma IV	
		of GFES	and	and	proceeds	and ESOS	
		RM	RM	RM	RM	RM	
Non-Current Assets							
Plant and equipment	11.2	29,765	700,290	700,290	700,290	2,200,290	2,200,290
Other investment	11.3	-	63,926	63,926	63,926	63,926	63,926
Development cost	11.4	99,291	99,291	99,291	99,291	1,099,291	1,099,291
		129,056	863,507	863,507	863,507	3,363,507	3,363,507
Current Assets							
Inventories	11.5	34,621	1,394,081	1,394,081	1,394,081	1,394,081	1,394,081
Trade receivables	11.6	29,212	2,794,948	2,794,948	2,794,948	2,794,948	2,794,948
Other receivables, deposits and prepayment		31,600	292,237	292,237	292,237	292,237	292,237
Fixed deposit with licensed bank	11.7	-	550,578	550,578	550,578	550,578	550,578
Cash and bank balances	11.8	72,731	325,747	1,009,752	7,009,752	4,509,752	5,759,752
		168,164	5,357,591	6,041,596	12,041,596	9,541,596	10,791,596
Current Liabilities							
Trade payables	11.9	25,400	1,356,751	1,356,751	1,356,751	1,356,751	1,356,751
Other payables and accruals		13,423	461,913	461,913	461,913	461,913	461,913
Amount owing to a related party	11.10	195,635	-	-	-	-	-
Short term borrowings	11.11	-	1,060,019	1,060,019	1,060,019	1,060,019	1,060,019
Taxation		7,400	378,121	378,121	378,121	378,121	378,121
		241,858	3,256,804	3,256,804	3,256,804	3,256,804	3,256,804
Net Current Assets/(Liabilities)		(73,694)	2,100,787	2,784,792	8,784,792	6,284,792	7,534,792
		55,362	2,964,294	3,648,299	9,648,299	9,648,299	10,898,299
Financed by :-							
Share capital	11.13	2	2,815,995	3,500,000	5,000,000	5,000,000	5,250,000
Share premium	11.14	-	-	-	4,500,000	4,500,000	5,500,000
Retained profits	11.14	4,316	4,316	4,316	4,316	4,316	4,316
Foreign exchange fluctuation reserve		(3,413)	(3,413)	(3,413)	(3,413)	(3,413)	(3,413)
Shareholders' equity		905	2,816,898	3,500,903	9,500,903	9,500,903	10,750,903
Non-Current Liabilities							
Hire purchase creditor	11.12	-	48,939	48,939	48,939	48,939	48,939
Deferred taxation	11.15	-	44,000	44,000	44,000	44,000	44,000
Minority interest		54,457	54,457	54,457	54,457	54,457	54,457
		55,362	2,964,294	3,648,299	9,648,299	9,648,299	10,898,299

13 ACCOUNTANTS' REPORT (Cont'd)

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11. Notes to the Statement of Assets and Liabilities

11.1 Summary of significant accounting policies

The following accounting policies are adopted by Grand-Flo Group and are consistent with those adopted in previous years.

11.1.1 Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention and complied with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965.

11.1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June 2004.

A subsidiary is defined as a company in which the Group has the power, directly or indirectly, to exercise control over the financial and operating policies so as to obtain benefit from its activities.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the effective date of disposal. At the date of acquisition, the fair value of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and resulting unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquired subsidiary. Seperate disclosure is made for minority interest.

13 ACCOUNTANTS' REPORT (Cont'd)

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11. Notes to the Statement of Assets and Liabilities (Contd.)
11.1 Summary of significant accounting policies (Contd.)
11.1.2 Basis of consolidation (Contd.)

Details of the subsidiaries are:-

Name	Effective interest	Country of incorporation	Principal Activities
GFES	100%	Malaysia	Provision of integrated EDCCS solutions.
GFS	51%	Singapore	Provision of integrated EDCCS solutions.

11.1.3 Financial instruments

Financial instruments are recognised in the balance sheet when the Company has become party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

11.1.4 Investment in subsidiary

The investment in subsidiary held on a long-term basis is stated at cost. Allowance for impairment in value is made if the directors are of the opinion that the investment is impaired.

13 ACCOUNTANTS' REPORT (Cont'd)

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11. Notes to the Statement of Assets and Liabilities (Contd.)

11.1 Summary of significant accounting policies (Contd.)

11.1.5 Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight line basis over the expected useful lives of the plant and equipment concerned. The principal annual rates used for this purpose are :-

	Per Annum
Furniture and fittings	8% - 20%
Motor vehicles	16% - 20%
Office equipment	12% - 40%
Renovation	8%

11.1.6 Impairment of Assets

The carrying values of assets, other than those to which MASB 23, Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

13 ACCOUNTANTS' REPORT (Cont'd)

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11. Notes to the Statement of Assets and Liabilities (Contd.)

11.1 Summary of significant accounting policies (Contd.)

11.1.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first out basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

In arriving at net realisable value, due allowance is made for all obsolete, damaged and slow-moving items.

11.1.8 Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the year in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

11.1.9 Research and Development Expenditure

Research expenditure is written off to the income statement when incurred. Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure capitalised comprises costs incurred for development including direct and attributable indirect costs. Development costs initially recognised as an expense are not recognised as assets in the subsequent period.

Development costs that have been capitalised are amortised on a straight-line basis over the period on their expected benefit, but not exceeding 5 years, from the commencement of commercial production of the products.

11.1.10 Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.1 Summary of significant accounting policies (Contd.)

11.1.11 Interest-bearing Borrowings

The interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

All the borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

11.1.12 Equity Instruments

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

11.1.13 Assets under Hire Purchase

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 11.1.5 above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase agreements.

11.1.14 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

11.1.15 Employee Benefits

(i) Short term benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

The Group's contributions to a defined contribution plans are charged to the income statement in the period in which they relate. Once the contributions have been paid, the Group has no further liabilities in respect of the defined contribution plans.

13 ACCOUNTANTS' REPORT (Cont'd)

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11. Notes to the Statement of Assets and Liabilities (Contd.)

11.1 Summary of significant accounting policies (Contd.)

11.1.16 Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling as of that date. All exchange differences are taken to the income statement.

The financial statements of the foreign subsidiaries are translated into Ringgit Malaysia using the current rate method for the balance sheet whilst the average rate is used for the translation of the income statement for consolidation purposes. All exchange differences arising are taken directly to equity as a movement in the foreign exchange translation reserve. Foreign exchange differences relating to a foreign subsidiary are recognised as income or expense on the disposal of that subsidiary.

11.1.17 Taxation

Taxation for the year comprises current and deferred tax.

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

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.1 Summary of significant accounting policies (Contd.)

11.1.18 Revenue Recognition

(i) Trading

Revenue is recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

(ii) Services

Revenue is recognised upon rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

(iii) Interest income

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

11.2 Plant and Equipment

Group	Motor vehicle	Furniture & fittings	Office equipment	Renovation	Total
2004	RM	RM	RM	RM	RM
<u>Net book value</u>					
As at 1 January,	478,623	37,814	139,182	35,656	691,275
Additions	45,000	7,128	44,844	950	97,922
Depreciation	(64,100)	(3,077)	(19,805)	(1,925)	(88,907)
As at 30 June,	459,523	41,865	164,221	34,681	700,290
As at 30 June 2004					
Cost	785,846	56,592	309,503	48,118	1,200,059
Accumulated depreciation	(326,323)	(14,727)	(145,282)	(13,437)	(499,769)
Net book value	459,523	41,865	164,221	34,681	700,290
Proforma adjustment					
Utilisation of proceeds					1,500,000
Balance as per Proforma IV & V					<u>2,200,290</u>

Included in the net book value of the plant and equipment at the balance sheet date are certain motor vehicles with a total net book value of RM183,381 acquired under hire purchase terms.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.3 Other investment

	30.6.04
	RM
Golf club membership - at cost	69,486
Less : Accumulated amortisation	(5,560)
	<u>63,926</u>

11.4 Development cost

	30.6.04
	RM
Development cost incurred during the financial period	110,323
Amortisation of development costs	(11,032)
Balance as per Proforma I, II & III	<u>99,291</u>
Proforma adjustment	
Utilisation of proceeds	1,000,000
Balance as per Proforma IV & V	<u>1,099,291</u>

11.5 Inventories

These comprise inventories in trade and are stated at cost.

11.6 Trade debtors

The Company's normal trade credit terms range from 30 days to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

Included in the trade receivables are the foreign currency exposure profile of foreign debtors :-

	30.6.04
	Ringgit Malaysia
	Equivalent
United States Dollar	203,699
Singapore Dollar	<u>159,073</u>

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.7 Fixed Deposits With Licensed Banks

The fixed deposits with licensed banks have been pledged to financial institutions as security for banking facilities granted to GFES.

The average effective interest rate of the fixed deposits at the balance sheet date was 3% per annum. The fixed deposit has a maturity period ranging from 1 month to 6 months.

11.8 Cash And Bank Balances

	30.6.04
	RM
As at 30 June,	72,731
Proforma adjustment	
Cash and bank balances of GFES acquired	253,016
Balance as per Proforma I	<u>325,747</u>
Proceeds from Subscription	684,005
Balance as per Proforma II	<u>1,009,752</u>
Proceeds from Public Issue	7,500,000
Less : Listing expenses	<u>(1,500,000)</u>
Balance as per Proforma III	7,009,752
Utilisation of proceeds	<u>(2,500,000)</u>
Balance as per Proforma IV	4,509,752
Proceeds from ESOS	1,250,000
Balance as per Proforma V	<u><u>5,759,752</u></u>

The foreign currency exposure profile of cash and bank balances is as follows:-

	30.6.04
	Ringgit Malaysia
	Equivalent
Singapore Dollar	<u><u>65,627</u></u>

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943**11. Notes to the Statement of Assets and Liabilities (Contd.)****11.9 Trade Payables**

The normal credit terms granted to the Company range from 30 days to 60 days.

Approximately 73% of the Group's purchases of RM4.0 million are imports. The unpaid foreign creditors stated in Ringgit Malaysia as at 30 June 2004 are disclosed below.

The foreign currency exposure profile of trade payables is as follows:-

	30.6.04
	Ringgit Malaysia
	Equivalent
United States Dollar	973,583
Singapore Dollar	<u>51,941</u>

11.10 Amount Owing To A Related Party

The amount owing is unsecured, interest free and not subject to fixed terms of repayment. A related party refers to a company in which the directors have substantial financial interests.

The amount owing to related party is in respect of an amount owing to GFES which was eliminated upon the consolidation by Grand-Flo.

11.11 Short-Term Borrowings

	30.6.04
	RM
Bills payable	968,000
Bank overdraft	37,011
Hire purchase payables (from Note 11.12)	55,008
	<u>1,060,019</u>

The short-term borrowings are in respect of the banking facilities taken up by GFES. The effective interest rate of the bank overdraft and the bills payable at the balance sheet date were 8.5% and 4.43% per annum respectively. These bank borrowings are secured as follows:-

- (i) a corporate guarantee by Grand-Flo Corp;
- (ii) a pledge on the fixed deposits of GFES; and
- (iii) the joint and several guarantee by certain directors of GFES.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.12 Hire Purchase Payables

The hire purchase payables comprise the following:-

	30.6.04 RM
Minimum hire purchase payments:	
- not later than one year	64,188
- later than one year and not later than two years	57,030
	<u>121,218</u>
Less : Future finance charges	(17,271)
Present value of hire purchase payables	<u>103,947</u>
 Hire purchase payables	 103,947
Less : Amount due not later than one year (included in Note 11.11)	(55,008)
Amount due later than one year but not later than two years	<u>48,939</u>

The hire purchase liabilities bore interest at the balance sheet date at 7.1% per annum.

11.13 Share Capital

	Number of shares	RM
Issued and paid up ordinary shares at par of RM0.10:-		
As at 30 June 2004	20	2
Issue for the Acquisition of GFES	28,159,930	2,815,993
Balance as per Proforma I	<u>28,159,950</u>	<u>2,815,995</u>
Issue for the Subscription	6,840,050	684,005
Balance as per Proforma II	<u>35,000,000</u>	<u>3,500,000</u>
Issue for the Public Issue	15,000,000	1,500,000
Balance as per Proforma III & IV	<u>50,000,000</u>	<u>5,000,000</u>
Issue for the ESOS	2,500,000	250,000
Balance as per Proforma V	<u>52,500,000</u>	<u>5,250,000</u>

11.14 Share Premium and Reserves

	Share premium RM	Retained profit RM
As at 1 January 2004	-	(18,929)
Net profit for the period	-	23,245
Balance as per Proforma I & II	<u>-</u>	<u>4,316</u>
Public Issue	6,000,000	-
Listing expenses	(1,500,000)	-
Balance as per Proforma III & IV	<u>4,500,000</u>	<u>4,316</u>
ESOS	1,000,000	-
Balance as per Proforma V	<u>5,500,000</u>	<u>4,316</u>

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.15 Deferred taxation

The deferred taxation is in respect of the temporary differences between depreciation and capital allowances on qualifying cost of plant and equipment.

11.16 Capital Commitment

Authorised capital expenditure not provided for in the financial statements:-

	30.6.04
	RM
Contracted	<u>1,530,000</u>

11.17 Contingent Liabilities

There were no contingent liabilities for the Group as at 30 June 2004.

11.18 Financial Risk Management Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its currency, interest rate, market, credit, liquidity and cash flow risks. The policies in respect of the major areas of treasury activity are as follows:-

(a) Foreign currency risk

The Group is exposed to foreign exchange risk on sales, purchases and investments that are denominated in foreign currencies. It manages its foreign exchange exposure by a policy of matching as far as possible receipts and payments in each individual currency.

The Group's foreign currency translations and balances are substantially denominated in United States (US) Dollar and Singapore (SGD) Dollar.

Due to the present Ringgit Malaysia exchange rate peg against the US Dollar, the directors are of the opinion that the Group's exposure to the currency risk is not significant.

(b) Interest Rate Risk

The Group obtains financing through bank borrowings and hire purchase. Its policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.18 Financial Risk Management Policies (Contd.)

(c) Market Risk

The Group does not have any quoted investments and hence is not exposed to market risks.

(d) Credit Risk

The Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amounts of these financial assets in the balance sheet reduced by the effects of any netting arrangements with counterparties.

The Group does not have any major concentration of credit risk related to any individual customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The Group manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

(e) Liquidity and Cash Flow Risks

The Group's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practices prudent liquidity risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

11.19 Fair Values of Financial Assets and Financial Liabilities

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:-

(a) Bank balances and other liquid funds and short term receivables

The carrying amounts approximated their fair values due to the relatively short term maturity of these instruments.

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

11. Notes to the Statement of Assets and Liabilities (Contd.)

11.19 Fair Values of Financial Assets and Financial Liabilities (Contd.)

(b) Short term borrowings and other current liabilities

The carrying amounts approximated their fair values due to the short period to maturity of these instruments.

(c) Hire purchase payables

The fair values of hire purchase obligations are determined by discounting the relevant cash flow using the applicable interest rates prevailing at the balance sheet date.

12. Proforma Net Tangible Assets Per Ordinary Share

Based on the Proforma Statements of Assets and Liabilities of Grand-Flo Group (After the Dividend Payment, Acquisition of GFES, Subscription, Public Issue and ESOS) as at 30 June 2004, the proforma net tangible assets per share is calculated as follows:-

	Proforma Group RM
Based on Proforma I	
Net Tangible Assets as at 30 June 2004	2,717,607
Number of ordinary shares at RM0.10 each	28,159,950
Net Tangible Assets per ordinary share (sen)	9.7
Based on Proforma II	
Net Tangible Assets as at 30 June 2004	3,401,612
Number of ordinary shares at RM0.10 each	35,000,000
Net Tangible Assets per ordinary share (sen)	9.7
Based on Proforma III	
Net Tangible Assets as at 30 June 2004	9,401,612
Number of ordinary shares at RM0.10 each	50,000,000
Net Tangible Assets per ordinary share (sen)	18.8
Based on Proforma IV	
Net Tangible Assets as at 30 June 2004	8,401,612
Number of ordinary shares at RM0.10 each	50,000,000
Net Tangible Assets per ordinary share (sen)	16.8
Based on Proforma V	
Net Tangible Assets as at 30 June 2004	9,651,612
Number of ordinary shares at RM0.10 each	52,500,000
Net Tangible Assets per ordinary share (sen)	18.4

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943**13. Proforma Consolidated Cash Flow for the period ended 30 June 2004**

The proforma consolidated cash flow statement of the Group for the period ended 30 June 2004 is set out below based on the audited financial statements of Grand-Flo and GFES as at 30 June 2004 and incorporating the restructuring as stated in Item 2.

	2004
	RM
Cash Flow From Operating Activities	
Profit before taxation	1,152,514
Adjustment for:-	
Amortisation of development costs	11,032
Depreciation	88,907
Interest expense	38,232
Interest income	(8,137)
Operating profit before working capital changes	<u>1,282,548</u>
Increase in inventories	767,033
Decrease in debtors	(349,128)
Decrease in creditors	<u>(1,081,660)</u>
	618,793
Interest paid	(38,232)
Income tax paid	<u>(149,048)</u>
Net Cash Generated From Operating Activities	<u>431,513</u>
Cash Flow From Investing Activities	
Development costs incurred	(1,110,323)
Interest income	8,137
Purchase of fixed assets	(1,597,922)
Proceeds from minority interest	55,925
Net Cash Generated From Investing Activities	<u>(2,644,183)</u>
Cash Flow From Financing Activities	
Proceeds from issue of shares	7,500,000
Proceeds from issue of shares in connection with ESOS	1,250,000
Proceeds from Subscription	684,005
Payment of listing expenses	(1,500,000)
Repayment of borrowings	(75,966)
Repayment of hire purchase payables	(27,504)
Repayment from related party	2,718
Net Cash Used In Financing Activities	<u>7,833,253</u>
Net increase in cash and cash equivalents	5,620,583
Foreign exchange fluctuation reserve	(3,413)
Cash and cash equivalents At 1 January 2004	<u>656,149</u>
Cash and cash equivalents At 30 June 2004	<u><u>6,273,319</u></u>
Cash and Cash Equivalents Comprises the following:-	
Fixed deposit with licensed bank	550,578
Cash and bank balances	5,759,752
Bank overdraft	(37,011)
	<u><u>6,273,319</u></u>

13 ACCOUNTANTS' REPORT (Cont'd)

R. K. & ASSOCIATES AF: 0943

14. Audited Financial Statements

There have been no financial statements prepared in respect of any period subsequent to 30 June 2004 for the Group.

15. Significant Events Subsequent to Balance Sheet Date

Other than as disclosed in Note 6 to this Report, there are no other significant event subsequent to 30 June 2004 which is required to be disclosed.

Yours faithfully,



R. K. & Associates
AF: 0943
Chartered Accountants



Ramahamirtam D/O Karupaiah
1363/11/05 (J)
Partner

Kuala Lumpur, Malaysia

14 **PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004 AND
REPORTING ACCOUNTANTS' LETTER THEREON**
(Prepared for the inclusion in this Prospectus)

R.K. & ASSOCIATES AF: 0943
Chartered Accountants

12 OCT 2004

The Board of Directors
Grand-Flo Solution Berhad
Third Floor, No. 79 (Room A)
Jalan SS21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

**GRAND-FLO SOLUTION BERHAD ("GRAND-FLO" OR "THE COMPANY")
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004**

We have reviewed the presentation of the proforma consolidated balance sheets of Grand-Flo and its subsidiaries as at 30 June 2004 together with the notes thereto prepared for inclusion in the Prospectus to be dated **15** October 2004, for which the Directors are solely responsible, as set out in the accompanying statement which we have stamped for the purpose of identification, prepared in connection with the Subscription of 6,840,050 ordinary shares of RM0.10 each in Grand-Flo by certain interested investors at an issue price of RM0.10 each, Grand-Flo's Public Issue of 15,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.50 per share and the listing of and quotation for the entire enlarged issued and paid up capital of Grand-Flo of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

In our opinion:-

- (i) the proforma consolidated balance sheets of Grand-Flo as at 30 June 2004, which are provided for illustrative purposes only, have been properly compiled on the basis set out in the notes to the proforma consolidated balance sheets and such basis is consistent with the accounting policies normally adopted by Grand-Flo; and
- (ii) the adjustments to the consolidated balance sheets of Grand-Flo as at 30 June 2004 are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully,



R.K. & Associates
Chartered Accountants
AF: 0943



Ramahamirtam D/O Karupaiah
1363/11/05 (J)
Partner

Kuala Lumpur, Malaysia

14 PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004 AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

GRAND-FLO SOLUTION BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004

The proforma consolidated balance sheets of Grand-Flo and its subsidiaries are provided for illustrative purposes only to show the effects of the Dividend Payment, Acquisition of GFES, Subscription, Public Issue of 15,000,000 new ordinary shares of RM0.10 each in Grand-Flo, listing of and quotation for the entire enlarged issued and paid up share capital of Grand Flo of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each, utilisation of proceeds and the shares to be issued pursuant to the exercise of ESOS, with the assumption that these transactions were completed on 30 June 2004.

	Balance Sheet					
	As At 30 June 2004	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V
Plant and equipment	29,765	700,290	700,290	700,290	2,200,290	2,200,290
Other Investments	-	63,926	63,926	63,926	63,926	63,926
Development cost	99,291	99,291	99,291	99,291	1,099,291	1,099,291
	<u>129,056</u>	<u>863,507</u>	<u>863,507</u>	<u>863,507</u>	<u>3,363,507</u>	<u>3,363,507</u>
Current Assets						
Inventory	34,621	1,394,081	1,394,081	1,394,081	1,394,081	1,394,081
Trade receivables	29,212	2,794,948	2,794,948	2,794,948	2,794,948	2,794,948
Other receivables	31,600	292,237	292,237	292,237	292,237	292,237
Fixed deposit with a licensed bank	-	550,578	550,578	550,578	550,578	550,578
Cash and bank balances	72,731	325,747	1,009,752	7,009,752	4,509,752	5,759,752
	<u>168,164</u>	<u>5,357,591</u>	<u>6,041,596</u>	<u>12,041,596</u>	<u>9,541,596</u>	<u>10,791,596</u>
Current Liabilities						
Trade payables	25,400	1,356,751	1,356,751	1,356,751	1,356,751	1,356,751
Other payables	13,423	461,913	461,913	461,913	461,913	461,913
Amount due to related party	195,635	-	-	-	-	-
Short term borrowings	-	1,060,019	1,060,019	1,060,019	1,060,019	1,060,019
Taxation	7,400	378,121	378,121	378,121	378,121	378,121
	<u>241,858</u>	<u>3,256,804</u>	<u>3,256,804</u>	<u>3,256,804</u>	<u>3,256,804</u>	<u>3,256,804</u>
Net Current Assets/ (Liabilities)	<u>(73,694)</u>	<u>2,100,787</u>	<u>2,784,792</u>	<u>8,784,792</u>	<u>6,284,792</u>	<u>7,534,792</u>
	<u>55,362</u>	<u>2,964,294</u>	<u>3,648,299</u>	<u>9,648,299</u>	<u>9,648,299</u>	<u>10,898,299</u>
Financed by :-						
Share capital	2	2,815,995	3,500,000	5,000,000	5,000,000	5,250,000
Share premium	-	-	-	4,500,000	4,500,000	5,500,000
Retained profits	4,316	4,316	4,316	4,316	4,316	4,316
Foreign exchange fluctuation reserve	(3,413)	(3,413)	(3,413)	(3,413)	(3,413)	(3,413)
Shareholders' equity	<u>905</u>	<u>2,816,898</u>	<u>3,500,903</u>	<u>9,500,903</u>	<u>9,500,903</u>	<u>10,750,903</u>
Long term liabilities	-	48,939	48,939	48,939	48,939	48,939
Deferred taxation	-	44,000	44,000	44,000	44,000	44,000
Minority interests	54,457	54,457	54,457	54,457	54,457	54,457
	<u>55,362</u>	<u>2,964,294</u>	<u>3,648,299</u>	<u>9,648,299</u>	<u>9,648,299</u>	<u>10,898,299</u>
Number of shares in issue	20	28,159,950	35,000,000	50,000,000	50,000,000	52,500,000
Net tangible assets per share (sen)	(491,930.0)	9.7	9.7	18.8	16.8	18.4

R. K. & ASSOCIATES
AF: 0943
Chartered Accountants
FOR IDENTIFICATION PURPOSES ONLY

14 **PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004 AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

GRAND-FLO SOLUTION BERHAD ("GRAND-FLO")
NOTES TO PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004

1. The proforma consolidated balance sheets have been prepared based on the audited balance sheets as at 30 June 2004 of Grand-Flo, Grand-Flo Systems (S) Pte. Ltd. ("GFS") and Grand-Flo Electronic System Sdn. Bhd. ("GFES") and on the accounting principles and bases consistent with those previously adopted in the preparation of the audited financial statements.
2. The proforma consolidated balance sheets have been prepared for illustrative purposes only to show the following transactions and the listing proposals:-

Proforma I

Dividend Payment

For illustrative purposes, GFES paid a net dividend of RM817,287 to the shareholders of GFES out of the retained earnings between 1 January 2004 to 30 June 2004 of GFES.

Acquisition of GFES

Grand-Flo acquired 500,000 shares of RM1 each in GFES for a purchase consideration of RM2,815,993 based on its audited net tangible assets ("NTA") as at 31 December 2003 satisfied in full by the issuance of 28,159,930 new ordinary shares of RM0.10 each in Grand-Flo. The acquisition did not give rise to any goodwill.

Proforma II

Subscription

The Subscription of 6,840,050 ordinary shares of RM0.10 each in Grand-Flo by certain interested investors at an issue price of RM0.10 each after the Acquisition of GFES. The proceeds of RM684,005 from the Subscription will be used as working capital.

Proforma III

Public Issue

Proforma III incorporates Proforma II and the Public Issue of 15,000,000 new ordinary shares of RM0.10 each in Grand-Flo at an issue price of RM0.50 per share to individuals, companies, societies, co-operatives, institutions, directors, employees and business associates.

The net proceeds from the Public Issue of RM6,000,000 is after taking into account the estimated listing expenses of RM1,500,000. The listing expenses are to be borne by Grand-Flo and are charged against the Share Premium Account.

Listing and Quotation

Listing of and quotation for the entire issued and paid up share capital of RM5,000,000 comprising 50,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

R. K. & ASSOCIATES AF: 0943 Chartered Accountants FOR IDENTIFICATION PURPOSES ONLY
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14 **PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004 AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**GRAND-FLO SOLUTION BERHAD ("GRAND-FLO")
NOTES TO PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004**

Proforma IV

Utilisation of Proceeds

Proforma IV incorporates Proforma III and the utilisation of net proceeds from the Public Issue as follows:

	RM
Expansion plan to Singapore, Thailand and overseas markets	500,000
Setting up and renovation of headquarters	1,500,000
Research and development expenses	1,000,000
Working capital	3,000,000
	6,000,000

Proforma V

Employees Share Option Scheme ("ESOS")

Proforma V incorporates Proforma IV and the implementation of ESOS involving up to 5% of Grand-Flo's issued and paid up share capital at any time during the existence of the ESOS, to be issued pursuant to the options to be granted under ESOS to the executive directors and eligible employees of the Group.

3. Share capital and reserves

The movements of the issued and paid-up share capital and reserves of Grand-Flo are as follows:-

	Ordinary share capital RM	Share premium RM	Retained profits RM	Foreign exchange fluctuation reserve RM
As at 30 June 2004	2	-	4,316	(3,413)
Dividend Payment and Acquisition of GFES	2,815,993	-	-	-
Proforma I Subscription	2,815,995 684,005	-	4,316 -	(3,413) -
Proforma II	3,500,000	-	4,316	(3,413)
Public Issue	1,500,000	6,000,000	-	-
Estimated listing expenses	-	(1,500,000)	-	-
Proforma III Utilisation of proceeds	5,000,000 -	4,500,000 -	4,316 -	(3,413) -
Proforma IV ESOS	5,000,000 250,000	4,500,000 1,000,000	4,316 -	(3,413) -
Proforma V	5,250,000	5,500,000	4,316	(3,413)