



GRAND-FLO SOLUTION BERHAD
(Company no. 607392-W)
("GRAND-FLO" OR "COMPANY")

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

A1. BASIS OF PREPARATION

The interim financial report is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standard (FRS) 134: Interim Financial issued by Malaysian Accounting Standards Board ("MASB") and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market.

The interim financial statements should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2006.

The same accounting policies and methods of presentation adopted by the Company and its subsidiaries ("Group") in the interim financial statements are consistent with those adopted for the financial year ended 31 December 2006.

A2. COMPARATIVE FIGURES

The following comparative amounts as at 30 June 2006 have been reclassified to conform with presentation as per audited financial statements for the financial year ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT	3 MONTHS ENDED 30/06/2006		
	Previously Stated RM	Reclassification RM	Restated RM
COST OF SALES	(5,504,556)	325,245	(5,179,311)
OTHER OPERATING INCOME	234,099	(86,400)	147,699
SELLING AND DISTRIBUTION COSTS	(225,372)	(141,122)	(366,494)
ADMINISTRATION EXPENSES	(1,379,479)	(184,123)	(1,563,602)
OTHER OPERATING EXPENSES	(394,020)	86,400	(307,620)

CONSOLIDATED INCOME STATEMENT	6 MONTHS ENDED 30/06/2006		
	Previously Stated RM	Reclassification RM	Restated RM
COST OF SALES	(11,632,062)	734,654	(10,897,408)
OTHER OPERATING INCOME	349,097	(86,400)	262,697
SELLING AND DISTRIBUTION COSTS	(431,460)	(356,808)	(788,268)
ADMINISTRATION EXPENSES	(2,630,372)	(377,846)	(3,008,218)
OTHER OPERATING EXPENSES	(632,499)	86,400	(546,099)



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the financial year ended 31 December 2006 was not subject to any qualification.

A4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items during this quarter.

A5. SEASONAL OR CYCLICAL FACTORS

The business of the Group was not affected by any significant seasonal or cyclical factors.

A6. CHANGES IN ESTIMATES

There were no changes in estimates that have had a material effect in the current quarter results.

A7. DEBT AND EQUITY SECURITIES

Save as disclosed below, there were no issuance or repayment of debt and equity securities, share buy-back, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period ended 30 June 2007:-

- (a) On 11 January 2007, the Company issued 300,000 new ordinary shares of RM0.10 each in Grand-Flo ("Grand-Flo Shares") pursuant to the exercise of the Company's Employees' Shares Option Scheme ("ESOS") options;
- (b) On 8 February 2007, the final tranche of 2,039,200 Grand-Flo Shares were issued pursuant to the Private Placement at an issue price of RM0.40 per Share;
- (c) As announced to Bursa Securities on 17 May 2007, the Company issued 30,000 Grand-Flo Shares pursuant to the exercise of the Company's ESOS options.

A8. DIVIDEND PAID

The proposed final dividend of 20% less income tax of 27% in respect of the year ended 31 December 2006 was approved by the Company's shareholders on 24 May 2007 and paid on 5 July 2007.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

A9. SEGMENTAL INFORMATION

Analysis by Geographical Location	3 Months Ended 30/06/2007				6 Months Ended 30/06/2007			
	Malaysia RM'000	Other Countries RM'000	Eliminations RM'000	Group RM'000	Malaysia RM'000	Other Countries RM'000	Eliminations RM'000	Group RM'000
External Revenue	7,169	7,069	-	14,238	13,760	14,006	-	27,766
Intersegment	1,222	180	(1,402)	-	2,242	331	(2,573)	-
Total Revenue	8,391	7,249	(1,402)	14,238	16,002	14,337	(2,573)	27,766
Results from operation	1,445	501	-	1,946	2,295	1,656	-	3,951
Finance Cost	(26)	(33)	-	(59)	(67)	(86)	-	(153)
Profit before taxation	1,419	468	-	1,887	2,228	1,570	-	3,798
Taxation	(188)	(90)	-	(278)	(226)	(301)	-	(527)
Profit after taxation	1,231	378	-	1,609	2,002	1,269	-	3,271
Profit attributable to:								
Equity holders of the company	1,231	185	-	1,416	2,002	622	-	2,624
Minority interest	-	193	-	193	-	647	-	647
Net profit attributable to shareholders	1,231	378	-	1,609	2,002	1,269	-	3,271

A10. CARRYING AMOUNT OF REVALUED ASSETS

The Company did not revalue any of its property, plant and equipment during the quarter. As at 30 June 2007, all property, plant and equipment were stated at cost less accumulated depreciation.

A11. SUBSEQUENT EVENTS

There were no material event subsequent to the end of current quarter ended 30 June 2007.

A12. CHANGES IN COMPOSITION OF THE GROUP

(a) On 14 March 2007, the Company announced the incorporation of Grand-Flo RFID Sdn. Bhd. ("Grand-Flo RFID") with Grand-Flo holding an equity interest of 100% therein. Presently, the authorised capital of Grand-Flo RFID is RM100,000.00 divided into 100,000 ordinary shares of RM1.00 each and the issued and paid-up capital is RM2.00 comprising of 2 ordinary shares of RM1.00 each. Grand-Flo RFID is presently dormant and its principal activities are intended to carry on the business of providing radio frequency identification solutions.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

A13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

On 30 June 2006, the Company provided a guarantee to a supplier for the credit facility granted by the latter to the group's subsidiary in Thailand, Simat Technologies Public Company Ltd (formerly known as Simat Mobile Computer Co., Ltd.) ("Simat") for the sums of money not exceeding USD1,000,000.00.

(b) Contingent assets

There were no contingent assets as at 27 August 2007, being the date of this report.

A14. CAPITAL COMMITMENTS

There are no material commitments which require disclosure during the quarter except for the following:

	At 30/06/2007
	RM'000
Capital expenditure:	
- Purchase of a three (3) storey shop office	577
Approved and contracted for*	<u>577</u>
Others:	
-Balance of payment for the acquisitions of Spritvest Sdn. Bhd. and Data Centrix Sdn. Bhd. net off cash paid and Shares issued of RM11.125 million	<u>2,875</u>

* *yet to be completed as at 27 August 2007, being the date of this report.*

A15. FIXED DEPOSIT WITH LICENSED BANKS

Included in fixed deposit is an amount of RM1.00 million, being deposit with a licensed bank placed in accordance with the Shares Acquisitions Agreement dated 22 March 2006 between the Company and the vendors of the subsidiaries acquired during the year. The fixed deposit is placed as security by the Company for the balance of payment to be made.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING
REQUIREMENTS OF BURSA SECURITIES FOR THE MESDAQ MARKET**

B1. PERFORMANCE REVIEW

The Group posted a stronger second quarter results compared to the corresponding quarter in 2006. Revenue grew by 60% to RM14.238 million from RM8.890 million. The higher in revenue was mainly contributed by strong organic growth from the subsidiaries coupled with the contribution from the newly acquired subsidiaries namely Spritvest Sdn. Bhd. and Data Centrix Sdn. Bhd., the acquisitions of which were completed on 13 October 2006.

For the three months ended 30 June 2007, the Group achieved a Profit before Taxation ("PBT") of RM1.887 million, an increase of 19% or RM0.301 million over the corresponding quarter of the previous financial year's RM1.586 million. However, PBT was slightly lower by 0.8% compared to the immediate preceding quarter ended 31 March 2007 at RM1.904 million.

Profit after taxation and minority interest ("PATMI") of RM1.609 million increased by approximately 39% against previous year's corresponding period. The enhancement in earnings was contributed by the newly acquired subsidiaries mentioned above.

For the cumulative period to 30 June 2007, the Group achieved revenue of RM27.766 million as compared with revenue of RM18.668 million for the corresponding period in 2006. This represents 49% increase for the first half year of 2007 as compared to corresponding first half year of 2006. This is on track with the Group's growth forecast of 50% for the year 2007 as per announcement in Bursa Securities on 5 February 2007.

B2. COMMENTARY ON PROSPECTS

The synergistic benefits arising from the successful acquisitions of Simat in Thailand in 2005 and more recently, SPV and DCSB in the local front were evident since Grand-Flo's listing on the MESDAQ Market of Bursa Securities in 2004. Moving forward, the Board of Directors of Grand-Flo ("Board") envisages these subsidiaries to play a pivotal role to the enlarged Group's continued growth. In addition, Simat's intended listing in the Market of Alternative Investment ("MAI") is progressing as planned and the decision from the Stock Exchange of Thailand is expected within this year.

Going forward, the Group is aggressively making its presence in Indonesia via value-added business partner.

The Board believes that with the accumulated domain knowledge in the industries, its achievement thus far, coupled with the Group's focused R&D initiatives, the Group will be well-placed in the forefront of cutting edge technology in the Enterprise Data Collection and Collation System ("EDCCS") sector in the local and regional markets.

Barring unforeseen circumstances, the Board expects the Group's profit to improve further in the current year as a result of the Group's rapid organic growth and expansion plans into regional countries.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

B3. PROFIT FORECAST AND PROFIT GUARANTEE

As set out in the Circular to the Shareholders dated 14 August 2006 in relation to the acquisitions of Spritvest Sdn. Bhd. and Data Centrix Sdn. Bhd., the vendors irrevocably covenant, warrant and guarantee to Grand-Flo that the Acquiree Companies shall achieve an aggregate audited profit after tax of at least RM4,500,000 as follows:-

- (a) RM2,000,000 for the financial period commencing 1 January 2006 and ending 31 December 2006 which has been achieved; and
- (b) RM2,500,000 for the financial period commencing 1 January 2007 and ending 31 December 2007.

B4. TAXATION

	3 Months ended 30/06/2007 RM'000	6 Months ended 30/06/2007 RM'000
Estimated income tax :		
Malaysia income tax	188	226
Foreign income tax	90	301
	<u>278</u>	<u>527</u>

- (i) The effective tax rate of the Malaysian taxation which is lower than the statutory tax rate due mainly to the reason that there is no taxation charge on the business income of the Company and a subsidiary of the Group as they are accorded the Multimedia Super Corridor (MSC) Status and was granted Pioneer Status which exempts 100% of their statutory business income for a period of five (5) years, with an option to extend the said status for a further period of five (5) years.
- (ii) Foreign taxation is in respect of corporate tax charged on the profit made by the Company's subsidiary operating in Thailand. The applicable corporate tax rate for current quarter is 30%.

B5. SALE OF UNQUOTED INVESTMENT AND PROPERTIES

There were no sales of unquoted investments and/or properties during the current financial period to date.

B6. QUOTED SECURITIES

The Group does not have any investment in quoted securities for the current financial year to date. There was no acquisition or disposal of quoted securities for the current financial year to date.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

B7. STATUS OF CORPORATE PROPOSALS AS AT 27 AUGUST 2007

There were no corporate proposals announced but not completed as at 27 August 2007, being the latest practicable date, not earlier than (7) days from the date of issuance of this report except for the following :-

- (a) On 25 October 2005, the Company announced to Bursa Securities for the purchase of a three (3) storey shop office ("Purchase") which is yet to be completed as at 27 August 2007. The capital commitments arising for the Purchase is disclosed in Section A14 above; and
- (b) On 5 April 2006, the Company announced the proposed listing of Simat Mobile Computer Co., Ltd. ("SMC"), a subsidiary company of Grand-Flo on the MAI. On 18 July 2006, SMC was converted into a public limited company under the name of Simat Technologies Public Company Limited ("Simat") pursuant to its proposed initial public offering on the MAI.
- (c) On 23 May 2007, the Company further announced that the application for the proposed listing of Simat on the MAI has been submitted to the Securities Exchange Commission of Thailand. Simat proposes to undertake a public issue of 18,750,000 new ordinary shares of THB1 each ("Simat Share(s)"), representing up to 25% of the enlarged issued and paid-up share capital of Simat ("Proposed Public Issue"). Upon completion of the Proposed Public Issue, the issued and paid-up share capital of Simat will increase from THB56,250,000 comprising 56,250,000 Simat Shares to THB75,000,000 comprising 75,000,000 Simat Shares. Thereafter, Simat will seek listing of and quotation for Simat's entire enlarged issued and paid-up share capital on the MAI. Please refer to the announcement dated 23 May 2007 for further details.

B8. STATUS OF UTILISATION OF PROCEEDS

On 8 February 2007, the Group had completed the implementation of the Proposed Private Placement which involved the allotment and issuance of a total of 10,039,200 new Grand-Flo Shares in five tranche placement as follows:-

Shares	Amount raised RM	Amount utilised RM	Purpose
1,000,000	415,000	415,000	Working capital
3,000,000	1,200,000	1,200,000	Working capital
3,000,000	1,200,000	1,200,000	Working capital
1,000,000	400,000	400,000	Working capital
2,039,200	815,680	815,680	Working capital
Total	4,030,680	4,030,680	Working capital



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

B9. BORROWINGS

The borrowings of the Company as at 30 June 2007 are as follows:-

	<u>At 30/06/2007</u> <u>RM'000</u>	<u>At 31/12/2006</u> <u>RM'000</u>
Secured Short-term (due within 12 months):		
Banker Acceptance / Factoring	1,319	922
Overdraft	65	116
Term loan	143	66
Hire purchase payables	166	197
Lease	579	614
	<u>2,272</u>	<u>1,915</u>
Secured Long-term (due after 12 months):		
Term loan	976	1,111
Hire purchase payables	287	360
Lease	694	592
	<u>1,957</u>	<u>2,063</u>
Total Borrowings	<u>4,229</u>	<u>3,978</u>

There are no unsecured borrowings for the current quarter.

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Company does not have any financial instrument with off balance sheet risk as at the date of this report.

B11. MATERIAL LITIGATION

As at 27 August 2007, being the date of this report, the Directors are not aware of any material litigations or claims against the Group and Company.

B12. PROPOSED DIVIDEND PAYABLE

No dividend was proposed or declared for the current financial period ended 30 June 2007.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2007**

B13. EARNINGS PER SHARE

a) Basic earnings per share

The basic earnings per share is calculated based on the Group's net profit attributable to ordinary equity holders of the parent of RM1.416 million for the current quarter and cumulative year to date, and divided by the weighted average number of ordinary shares of RM0.10 each in issue for the current quarter and cumulative year to date of 124,196,200 and 123,744,635 shares respectively as follows:-

	3 Months Ended 30/06/2007	6 Months Ended 30/06/2007
Net profit attributable to ordinary equity holders of the parent ('000)	1,416	2,624
Weighted average number of ordinary shares in issue ('000)	124,196	123,745
Basic earnings per share (sen)	<u>1.14</u>	<u>2.12</u>

b) Diluted earnings per share

The Company granted share options to its employees pursuant to the Company's ESOS. The Group diluted EPS is calculated by dividing the Group's net profit attributable to ordinary equity holders of the parent over the weighted average number of ordinary shares in issue and issuable during the financial period.

	3 Months Ended 30/06/2007	6 Months Ended 30/06/2007
Net profit attributable to ordinary equity holders of the parent ('000)	1,416	2,624
Weighted average number of ordinary shares in issue ('000)	124,196	123,745
Effect of share options* ('000)	1,006	1,006
Diluted earnings per share (sen)	<u>1.13</u>	<u>2.10</u>

* Note: Effect on Share Options on diluted EPS is calculated based on the following:
Unexercised Options – (Unexercised Options X Exercise Price / Fair Value)