NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2008

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 Grand-Flo Solution Berhad's ("Grand-Flo" or the "Company") audited consolidated financial statements for the financial year ended ("FYE") 31 December 2007.

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 FYE 31 December 2007.

A2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2007 was not subject to any qualification.

A3. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items during this quarter.

A4. SEASONAL OR CYCLICAL FACTORS

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

A5. CHANGES IN ESTIMATES

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

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A6. DEBT AND EQUITY SECURITIES

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 FYE 31 December 2008 save for the following:

(a) On 17 January 2008, the Company issued 244,000 new ordinary shares of RM0.10 each in Grand-Flo ("Grand-Flo Shares") at an issue price of RM0.25 each pursuant to the exercise of the Company's Employees' Shares Option Scheme ("ESOS") options.

(b) The details of shares held as treasury shares for the year ended 31 December 2008 are as follow:

	Number of Treasury shares	Total Considerations RM
Balance as at 1 January 2008	-	-
Repurchased during the quarter ended 30/09/2008	5,000	2,000
Transaction cost		43
Balance as at 31 December 2008	5,000	2,043

The average price paid for the shares repurchased was RM0.40 per share and the repurchase transaction costs were financed by internally generated funds.

A7. DIVIDEND PAID

For the FYE 31 December 2008:

	Dividend per share SEN	Amount of dividend RM'000
Final tax exempt dividend of 20% for the FYE 31 December 2007, paid on 1 August 2008	2.0	2,489

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2008

A8. SEGMENTAL INFORMATION

(a) Analysis of revenue by geographical area

	Current Quarter Ended 31/12/2008				Year-to-Date Ended 31/12/2008			
	Malaysia RM'000	Other Countries RM'000	Elimina-tions RM'000	Group RM'000	Malaysia RM'000	Other Countries RM'000	Elimina-tions RM'000	Group RM'000
External revenue	8,973	-	-	8,973	36,948	-	-	36,948
Intersegment	1,675	-	(1,675)	-	7,398	-	(7,398)	-
Total Revenue	10,648	-	(1,675)	8,973	44,346	-	(7,398)	36,948
Results from operation	(2,281)	-	-	(2,281)	627	-	-	627
Finance expenses	(173)	-		(173)	(472)	-		(472)
Share of profit in associate co.	-	64	-	64	-	382	-	382
Profit before taxation	(2,454)	64	-	(2,390)	155	382	-	537
Taxation	416	-	-	416	(326)	-	-	(326)
Profit after taxation	(2,038)	64	-	(1,974)	(171)	382	-	211
Profit attributable to:								
Equity holders of the Company	(2,254)	64	-	(2,190)	(714)	382	-	(332)
Minority interest	216	-	-	216	543	-	-	543
Net profit att. to shareholders	(2,038)	64	-	(1,974)	(171)	382	-	211

(b) Analysis of revenue by product categories

	Current Quarter Ended 31/12/2008				Year-to-Date Ended 31/12/2008			
	Malaysia RM'000	Other Countries RM'000	Elimina-tions RM'000	Group RM'000	Malaysia RM'000	Other Countries RM'000	Elimina-tions RM'000	Group RM'000
EDCCS*	6,026	-	(869)	5,157	26,718	-	(3,961)	22,757
Labels	4,622	-	(806)	3,816	17,628	-	(3,437)	14,191
Total Revenue	10,648	-	(1,675)	8,973	44,346	-	(7,398)	36,948

**Enterprise Data Collection and Collation System ("EDCCS")*

A9. CARRYING AMOUNT OF REVALUED ASSETS

The Company did not revalue any of its property, plant and equipment during the quarter. As at 31 December 2008, all property, plant and equipment were stated at cost less accumulated depreciation.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2008**

A10. SUBSEQUENT EVENTS

Save for the below, there were no other material events subsequent to the end of the current quarter ended 31 December 2008:-

Further to the Company's announcements dated 10 September 2008, 16 December 2008, 16 January 2009, 10 February 2009 and 20 February 2009 in respect of the proposed acquisition of CL Solutions (China) Limited ("CLS China") ("Proposed Acquisition"), Bursa Securities had, vide its letter dated 29 January 2009, which was received on 10 February 2009, approved-in-principle the listing of 11,398,176 new ordinary shares of RM0.10 each in Grand-Flo to be issued pursuant to the Proposed Acquisition. The approval of Grand-Flo's shareholders was also obtained at the Extraordinary General Meeting ("EGM") that was convened on 20 February 2009. As at the date of this quarterly report, the Proposed Acquisition has become unconditional on 24 February 2009 and is pending completion.

A11. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarter under review.

A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets of the Group during the quarter under review.

A13. CAPITAL COMMITMENTS

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

	At 31/12/2008 RM'000
Approved and contracted for:-	
- Balance of payment for the acquisition of LNSB	1,905
- Purchase consideration for the acquisition of CLS China	10,107
- Purchase consideration for acquisition of Penkopack	560
TOTAL	**12,572**

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2008

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

B1. PERFORMANCE REVIEW

For the current financial quarter ended 31 December 2008, the Group has recorded a lower revenue of RM8.973 million as compared to RM18.641 million in the preceding year's corresponding financial quarter ended 31 December 2007 whilst for the financial year-to-date, the Group's revenue of RM36.948 million was lower compared to the Group's revenue of RM64.670 million of the corresponding period in the previous year. The decrease in revenue was mainly due to the conversion of status of Simat Technologies Public Company Limited ("Simat") from a "subsidiary" of the Group to an "associate" pursuant to the dilution of Grand-Flo's equity interest of 49% to 36.75% in Simat as a result of Simat's listing on the Market for Alternative Investment in Thailand on 12 December 2007. Thereafter, Simat's financial results have not been consolidated into the Group but are accounted for on an equity method accordingly.

B2. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION ("PBT")

As compared with the Group's revenue of RM9.718 million for the previous financial quarter ended 30 September 2008, the Group's revenue of RM8.973 million recorded for the current financial quarter ended 31 December 2008 showed a decrease of approximately RM0.745 million or 7.7% as a result of the postponement of some projects.

The Group recorded a loss before taxation of RM2.390 million for the current financial quarter ended 31 December 2008 as compared to profit before taxation of RM0.062 million in the preceding quarter ended 30 September 2008. This was mainly due to the research and development ("R&D") costs of RM1.442 million being written off due to a technology refresh of Grand Flo's Enterprise Data Collection and Collation System ("EDCCS"), a general provision of doubtful debts of RM0.354 million based on a review of all outstanding amounts as at the balance sheet date and the start-up costs associated with the Group's new labels business division in Thailand.

Notwithstanding the above, the newly acquired subsidiary, Labels Network Sdn Bhd ("LNSB") had contributed positively to the Group's bottomline for the FYE 31 December 2008 as LNSB had achieved and exceeded its profit guarantee of RM1.0 million for the FYE 31 December 2008.

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B3. COMMENTARY ON PROSPECTS

In light of the expected economy downturn, the Group has, since more than a year ago, taken actions to diversify its clientele base with emphasis on markets which are more resilient to the economy changes such as fast moving consumer goods ("FMCG"), retail, healthcare and government or government-linked companies. At the same time, we have tightened the cost control mechanism and reviewed the resource-sharing scheme regionally to increase efficiency as a Group.

The investment in Simat Labels (Thailand) Company Limited ("Simat Labels"), a 60%-40% joint venture company between Simat and LNSB, has yet to record positive results as of 31 December 2008 due to the prolonged political uncertainties in Thailand and global economy climate. However, it has managed to secure substantial orders in the beginning of 2009 that is expected to turnaround to positive results for the FYE 31 December 2009. The Board remains confident that in the longer term, Simat Labels would contribute significantly to the Group's labels business and enable the Group to make significant inroads in gaining the local market share of the labels business in Thailand and its neighbouring countries.

In addition, the Group foresees exciting contribution in the longer run from Vietnam with its acquisitions of Sino Company Limited ("Sino") and High Rich Trading & Service Company Limited ("High Rich") in Vietnam via Simat. As at todate, both the Vietnamese firms are already seeing the benefits of going into our regional customers' accounts. This is part of the Group's ongoing effort to tap on the synergies within the Group located in different countries via cross selling, sharing of customer base, resources, technical expertise and know-how.

The recent proposed acquisition of CLS China's group of companies in China and Hong Kong by Grand-Flo presented yet another new business opportunity to the Group to penetrate into the EDCCS and labels business in Hong Kong and China.

B4. TAXATION

	Current quarter ended 31/12/2008 RM'000	Year to Date ended 31/12/2008 RM'000
Estimated Malaysia income tax	416	(326)
	416	(326)

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.

B5. SALE OF UNQUOTED INVESTMENT AND PROPERTIES

There were no sales of unquoted investments and/or properties during the current financial quarter and financial year-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.

B7. STATUS OF CORPORATE PROPOSALS AS AT 20 FEBRUARY 2009

There were no corporate proposals announced but not completed as at 20 February 2009, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report except for the following :-

(a) As announced to Bursa Securities on 9 April 2008, Grand-Flo's associate company, Simat has entered into a Share Sale and Purchase Agreement on the same date to acquire 40% each of the charter capital of Sino and High Rich.

The due diligence process of the proposed acquisition of Sino and High Rich were completed and on 21 October 2008, Simat and Simat Labels have entered into two (2) Supplemental Agreements to the Share Sale Agreement of the proposed acquisition respectively.

In accordance to the terms and conditions of the Supplemental Agreements, the total purchase consideration of USD760,000 is reduced to USD680,000, the profit guarantee after tax is increased from USD697,000 to USD795,000, and the profit guarantee period is extended to the FYE 31 December 2010.

Save for the purchase consideration, payment terms and profit guarantee as set out in the Supplemental Agreements, all other terms and conditions of the Share Sale Agreement remain unchanged.

(b) The Board of Directors of Grand-Flo had on 30 July 2008 announced that Grand-Flo had on the same date entered into a Joint Venture Agreement with its wholly-owned subsidiary, Grand-Flo Electronic System Sdn. Bhd. and Credent Technology (Asia) Pte Ltd (formerly known as Intergraph Systems Singapore Pte Ltd) to form an unincorporated joint venture ("Proposed JV") to jointly submit a project proposal and if successful to undertake the project on a joint venture basis. As of 20 February 2009, there have been no updates to the status of the Proposed JV.

B7. STATUS OF CORPORATE PROPOSALS AS AT 20 FEBRUARY 2009 (CONT'D)

(c) As announced on 10 September 2008, the Company had entered into a conditional Share Acquisition Agreement with CL Solutions Services Limited for the proposed acquisition of the entire issued and paid-up share capital of CLS China for and aggregate consideration of HKD25,000,000 (equivalent to approximately RM10,638,298) which shall be satisfied by way of cash of HKD13,750,000 (equivalent to approximately RM5,851,064) and the balance HKD11,250,000 (equivalent to approximately RM4,787,234) via the issuance of 11,398,176 new Grand-Flo Shares at an issue price of RM0.42 each ("Consideration Shares"). Bursa Securities had on 29 January 2009 approved in-principle the listing of the Consideration Shares. The approval of Grand-Flo's shareholders was also obtained at the EGM that was convened on 20 February 2009. The Proposed Acquisition has become unconditional on 24 February 2009 and is pending completion as at the date of this report.

B8. BORROWINGS

The borrowings of the Company as at 31 December 2008 are as follows:-

	At 31/12/2008 RM'000	At 31/12/2007 RM'000
Secured Short-term (due within 12 months):		
Bankers's Acceptance / Factoring	3,903	943
Overdraft	350	365
Term loan	1,242	158
Hire purchase payables & Lease	195	271
	5,690	1,737
Secured Long-term (due after 12 months):		
Term loan	3,116	1,491
Hire purchase payables & Lease	1,900	287
	5,016	1,778
Total Borrowings	10,706	3,515

There is no unsecured borrowing for the current quarter. All borrowings are denominated in Ringgit Malaysia.

B9. 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.

B10. MATERIAL LITIGATION

As at 20 February 2009, being the date of this report, the Directors are not aware of any material litigations or claims against the Group and Company.

B11. PROPOSED DIVIDEND PAYABLE

No dividend was proposed or declared for the current financial period ended 31 December 2008.

B12. EARNINGS PER SHARE

(a) **Basic earnings per share**

The basic earnings per share is calculated based on the Group's net loss attributable to ordinary equity holders of the parent of approximately RM2.190 million for the current quarter and approximately RM0.332 million for the 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 124,456,533 as follows:-

	Current quarter Ended 31/12/2008	**Year to Date Ended 31/12/2008**
Net profit attributable to ordinary equity holders of the parent (RM'000)	(2,190)	(332)
Weighted average number of ordinary shares in issue ('000)	124,457	124,457
Basic earnings/(loss) per share (sen)	(1.76)	(0.27)

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B12. EARNINGS PER SHARE (CONT'D)

(b) **Diluted earnings per share**

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

	Current quarter Ended 31/12/2008*	**Year to Date Ended 31/12/2008***
Net profit attributable to ordinary equity holders of the parent (RM'000)	N/A	N/A
Weighted average number of ordinary shares in issue ('000)	N/A	N/A
Effect of share options and share buy-back ('000)	N/A	N/A
Diluted earnings/(loss) per share (sen)	N/A	N/A

*For the current financial quarter and year ended 31 December 2008, 3.536 million unexercised options granted to certain employees have anti-dilutive potential and hence no diluted earnings per share is reported.