
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2009**

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 2008.

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 2008.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2008 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 financial period ended 31 March 2009 save for the following:

- (a) On 10 September 2008, the Company entered into the share acquisition agreement with CL Solutions Services Limited (“CLSS”), the Vendor to acquire 100% equity interest of CL Solutions (China) Limited (“CLS China”) for a purchase consideration of HKD25,000,000, which was satisfied by cash of HKD13,750,000 and the balance of HKD11,250,000 via the issue and allotment of 11,398,176 new ordinary shares of RM0.10 each in Grand-Flo. The CLS China acquisition was completed on 28 February 2008 as per the announcement made to Bursa Securities on 2 March 2009.

The issue and allotment of 11,398,176 new ordinary shares of RM0.10 each in Grand-Flo were issued at an issue price of RM0.42 each following the listing of and quotation for the entire enlarged issued and paid up share capital of the Company on Bursa Securities on 5 March 2009.

- (b) The details of shares held as treasury shares for the three (3) months period ended 31 March 2009 are as follow:

	Number of Treasury shares	Total Considerations RM
Balance as at 1 January 2009	5,000	2,043
Repurchased during the quarter ended 31/03/2009	10,000	3,250
Transaction cost		45
Balance as at 31 March 2009	<u>15,000</u>	<u>5,338</u>

The average price paid for the shares repurchased in aggregate was RM0.35 per share and the repurchase transaction costs were financed by internally generated funds.

A7. DIVIDEND PAID

There was no dividend paid during the financial period ended 31 March 2009.

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A8. SEGMENTAL INFORMATION

(a) Analysis of revenue by geographical area

	Current Quarter Ended 31/03/2009				Year-to-Date Ended 31/03/2009			
	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	7,362	453	-	7,815	7,362	453	-	7,815
Intersegment	1,983	-	(1,983)	-	1,983	-	(1,983)	-
Total Revenue	9,345	453	(1,983)	7,815	9,345	453	(1,983)	7,815
Results from operation	503	-	-	503	503	-	-	503
Finance expenses	(101)	-	-	(101)	(101)	-	-	(101)
Share of profit in associate co.	-	(166)	-	(166)	-	(166)	-	(166)
Profit before taxation	402	(166)	-	236	402	(166)	-	236
Taxation	(89)	(9)	-	(98)	(89)	(9)	-	(98)
Profit after taxation	313	(175)	-	138	313	(175)	-	138
Profit attributable to:								
Equity holders of the Company	86	(59)	-	27	86	(59)	-	27
Minority interest	111	-	-	111	111	-	-	111
Net profit att. to shareholders	197	(59)	-	138	197	(59)	-	138

(b) Analysis of revenue by product categories

	Current Quarter Ended 31/03/2009				Year-to-Date Ended 31/03/2009			
	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*	4,655	453	(1,111)	3,997	4,655	453	(1,111)	3,997
Labels	4,690	-	(872)	3,818	4,690	-	(872)	3,818
Total Revenue	9,345	453	(1,983)	7,815	9,345	453	(1,983)	7,815

*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 March 2009, all property, plant and equipment were stated at cost less accumulated depreciation.

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A10. SUBSEQUENT EVENTS

Save for the below, there were no other material events subsequent to the end of the current quarter ended 31 March 2009:-

- a. As announced on 22 April 2009, the Company proposes to seek the approval of its shareholders for the proposed renewal of the authority for the Share Buy-Back by the Company of its own shares of up to 10% of the total issued and paid-up ordinary share capital of Grand-Flo at the forthcoming annual general meeting of the Company to be convened.
- b. As of 15 May 2009, the Company received a notice of nomination from a shareholder of the Company to nominate Messrs. SJ Grant Thornton as the new auditors of the Company in place of the voluntary retiring auditors, Messrs. R.K. & Associates. The proposed change of auditors is subject to the Company's shareholders' approval at the forthcoming annual general meeting of the Company to be convened.
- c. On 15 May 2009, Simat Technologies Public Company Limited ("Simat") had subscribed for 12,000,000 new ordinary shares in Simat Label Co. Ltd ("Simat Labels"), resulting in the dilution of the shareholdings of Labels Network Sdn Bhd ("LNSB") in Simat Labels. Pursuant to the abovementioned subscription of new shares, Simat currently holds 80% of the share capital of Simat Labels while the remaining shareholding of 20% is held by LNSB.

A11. CHANGES IN COMPOSITION OF THE GROUP

On 10 September 2008, the Company entered into a Share Acquisition Agreement with CLSS to acquire 5,400,000 ordinary shares of HKD1.00 (equivalent to approximately RM0.47) each in CLS China, representing 100% of the issued and paid-up share capital of from the Vendor, for a purchase consideration of HKD25,000,000 of which HKD11,250,000 was satisfied by issuance of 11,398,176 new Grand-Flo Shares and HKD13,750,000 was satisfied by cash.

Following the completion of the acquisition of CLS China on 28 February 2009, CLS China and its subsidiaries, CL Solutions Limited, Victor Group Limited and Guangzhou CL Solutions Limited became wholly-owned subsidiaries of Grand-Flo.

The Vendor has provided a profit guarantee as tabled below.

Guarantee Period	Profit After Tax Guaranteed HKD	Approximately RM
FYE 31 December 2008	4,000,000	1,880,000
FYE 31 December 2009	5,000,000	2,350,000

There was no shortfall in profit guarantee for the FYE 31 December 2008.

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A11. CHANGES IN COMPOSITION OF THE GROUP (CONT'D)

The effects of the Acquisition are as follows:-

The fair values of assets and liabilities of the new subsidiaries acquired were as follows:

	RM'000
Property, plant and equipment	61
Assets	5,696
Liabilities	(1,572)
Net assets acquired	4,185
Goodwill on Acquisition	8,354
Total acquisition price	12,539
Cash & Cash equivalent of subsidiaries acquired	3,364

The contributions of the new subsidiaries to the Group's results for the quarter under review are as follows:-

	1 Month Ended* 31/03/2009 RM'000	3 Months Ended 31/03/2009 RM'000
Income Statement:		
Revenue	453	1,394
Net operating costs	(403)	(1,339)
Profit before taxation	50	55
Taxation	(9)	(17)
Profit after tax	41	38

**The Acquisition was completed on 28 February 2009.*

A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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A13. CAPITAL COMMITMENTS

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

	At 31/03/2009
	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 Sdn Bhd	560
TOTAL	<u><u>12,572</u></u>

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

B1. PERFORMANCE REVIEW

The Group recorded revenue of RM7.815 million for the current financial quarter ended 31 March 2009, representing a decrease of 8.74% or RM0.748 million as compared to the revenue of RM8.563 million in the preceding year's corresponding financial quarter ended 31 March 2008. This was mainly due to the tightening business spending and weaker consumer demand for EDCCS business in light of the current economic slowdown.

Following the completion of the acquisition of CLS China on 28 February 2009, CLS China posted revenue of RM0.453 million based on the one month contribution. (Note A8) The Board of Directors is confident that CLS China will continue to contribute positively to the earnings of the Group.

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

The Group recorded a PBT of RM0.236 million for the current financial quarter ended 31 March 2009 as compared to loss before taxation of RM2.390 million in the preceding quarter ended 31 December 2008. The Group posted higher profit margins for the current quarter ended 31 March 2009 after the research and development costs and a general provision of doubtful debts being written off in the preceding quarter ended 31 December 2008.

B3. COMMENTARY ON PROSPECTS

Looking ahead, the Group sees good growth opportunities for its labels business, especially in Thailand as the Asia economy is seeing signs of recovery and the political situation in Thailand stabilises. In Vietnam, we are positive of growth in the labels business when the new facility will be ready for operations by 4th quarter of the year. The new facility will enable the Vietnam plant to produce higher quality labels for the niche market.

The Group is also positive on the labels business with new market penetration into the Hong Kong and China market through the recently acquired subsidiaries, CLS China and its subsidiaries.

The Board of Directors remains confident in the Group's ability to manage through the current economic slowdown and expects to see a continued growth in the future.

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B4. TAXATION

	Current quarter ended 31/03/2009 RM'000	Year to Date ended 31/03/2009 RM'000
Estimated income tax :		
Malaysia income tax	89	89
Foreign income tax	9	9
	98	98

- (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 Hong Kong. The applicable corporate tax rate for current quarter is 18%.

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 27 MAY 2009

There were no corporate proposals announced but not completed as at 27 May 2009, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report except for the following :-

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 27 May 2009, there have been no updates to the status of the Proposed JV.

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B8. BORROWINGS

The borrowings of the Company as at 31 March 2009 are as follows:-

	At 31/03/2009	At 31/03/2008
	RM'000	RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	3,793	2,773
Overdraft	999	12
Term loan	1,678	-
Hire purchase payables & Lease	683	245
	<u>7,153</u>	<u>3,030</u>
Secured Long-term (due after 12 months):		
Term loan	2,541	1,798
Hire purchase payables & Lease	1,818	1,710
	<u>4,359</u>	<u>3,508</u>
Total Borrowings	<u>11,512</u>	<u>6,538</u>

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 27 May 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 March 2009.

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B12. 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 approximately RM0.027 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 128,339,430 as follows:-

	Current quarter Ended 31/03/2009	Year to Date Ended 31/03/2009
Net profit attributable to ordinary equity holders of the parent (RM'000)	27	27
Weighted average number of ordinary shares in issue ('000)	128,339	128,339
Basic earnings/(loss) per share (sen)	0.02	0.02

(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 31/03/2009	Year to Date Ended 31/03/2009
Net profit attributable to ordinary equity holders of the parent (RM'000)	27	27
Weighted average number of ordinary shares in issue ('000)	128,339	128,339
Effect of share options and share buy-back ('000)	480	480
Diluted earnings/(loss) per share (sen)	0.02	0.02