
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

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 Bursa Malaysia Securities Berhad’s (“Bursa Securities”) ACE Market Listing Requirements.

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 2009.

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 2009 except for the adoption of the following new and revised FRS effective for the financial period beginning on 1 January 2010:-

FRS 3	Business Combinations (revised)
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (revised)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement

The adoptions of the above FRSs do not have significant financial impact to the Group.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2009 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

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 2010 save for the following:-

- (a) The details of shares held as treasury shares for the three (3) months period ended 31 March 2010 are as follow:

	Number of Treasury shares	Total Considerations RM
Balance as at 31 December 2009	24,800	8,519
Repurchased during the quarter ended 31/03/2010	5,000	1,950
Transaction cost	-	42
Balance as at 31 March 2010	29,800	10,511

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 declared or paid during the financial period ended 31 March 2010.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

A8. SEGMENTAL INFORMATION

(a) Analysis of revenue by geographical area

	Current Quarter Ended 31/03/2010				Year-to-Date Ended 31/03/2010			
	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	12,107	1,846	-	13,953	12,107	1,846	-	13,953
Intersegment	2,939	-	(2,939)	-	2,939	-	(2,939)	-
Total Revenue	15,046	1,846	(2,939)	13,953	15,046	1,846	(2,939)	13,953
Results from Operating activities	1,658	107	-	1,765	1,658	107	-	1,765
Gain on deemed disposal	-	-	-	-	-	-	-	-
Finance costs	(147)	-	-	(147)	(147)	-	-	(147)
Share of profit in associate co.	-	642	-	642	-	642	-	642
Profit before taxation	1,511	749	-	2,260	1,511	749	-	2,260
Taxation	(198)	(32)	-	(230)	(198)	(32)	-	(230)
Profit after taxation	1,313	717	-	2,030	1,313	717	-	2,030
Profit attributable to:								
Owners of the Company	1,056	717	-	1,773	1,056	717	-	1,773
Minority interest	257	-	-	257	257	-	-	257
Profit for the period	1,313	717	-	2,030	1,313	717	-	2,030

(b) Analysis of revenue by product categories

	Current Quarter Ended 31/03/2010				Year-to-Date Ended 31/03/2010			
	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*	8,867	1,846	(1,902)	8,811	8,867	1,846	(1,902)	8,811
Labels	6,179	-	(1,037)	5,142	6,179	-	(1,037)	5,142
Total Revenue	15,046	1,846	(2,939)	13,953	15,046	1,846	(2,939)	13,953

*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 2010, all property, plant and equipment were stated at cost less accumulated depreciation.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

A10. SUBSEQUENT EVENTS

Save for the below, there were no other material events subsequent to the end of the current quarter ended 31 March 2010.

- a) On 18 January 2010, the Company had entered into a conditional shares acquisition agreement with Wan Kok Weng and Chan Pik Khew (collectively referred to hereon as the “Vendors”) to acquire 369,000 ordinary shares of RM1.00 each in Labels Network Sdn Bhd (“LNSB”), a 55% owned subsidiary of Grand-Flo, representing the remaining 45% equity interest in LNSB not already held by Grand-Flo at a purchase consideration of RM3,600,000.00 to be wholly settled by way of issuance of 9,230,769 new ordinary shares of RM0.10 each in Grand-Flo to the Vendors (“Consideration Shares”) at an issue price of RM0.39 per Consideration Share (“Proposed Acquisition”). Pursuant to this, the enlarged issued and paid-up share capital of Grand-Flo shall be 145,085,478 shares of RM0.10 each. The Proposed Acquisition was completed on 31 March 2010 and its results shall be consolidated accordingly effective from 1 April 2010.
- b) A renounceable rights issue of 67,912,455 five (5)-year 2010/2015 warrants (“Warrants”) on the basis of one (1) new Warrant for every two (2) Grand-Flo Shares held at an issue price of RM0.02 per Warrant were issued on 22 April 2010 and subsequently quoted on the Bursa Securities on 28 April 2010.

A11. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group for the current quarter under review except for a dilution of interest in an associate company, Simat Technologies Public Company Limited (“Simat”), from 36.75% to 35.02% as a result of a private placement of 3,700,000 common shares of Baht1.00 each at Baht2.70 per common share by Simat on 31 March 2010. The dilution shall be accounted for effectively from 1 April 2010.

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 were no material commitments as at the end of the current quarter under review.

A14. RELATED PARTY TRANSACTIONS

There were no related party transactions which would have a material impact on the financial position and the business of the Group during the current quarter under review except for the acquisition of LNSB as disclosed in Note A10 (a).

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

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

B1. PERFORMANCE REVIEW

The Group posted a revenue of RM13.953 million for the quarter under review, representing an increase of 78.54% or RM6.138 million as compared to the revenue of RM7.815 million in the preceding year's corresponding financial quarter ended 31 March 2009. The Group strong revenue was driven by the growth in the demand of EDCCS and Labels sales in Malaysia and other countries.

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

For the current quarter under review, the Group recorded a marginal decrease in revenue of RM0.820 million and PBT of RM0.233 million as compared to the immediate preceding quarter. The slight decrease was expected as traditionally, the Group had been recording lower revenue and earnings in the first quarter of its financial year as compared to the last quarter of every year.

B3. COMMENTARY ON PROSPECTS

The Company maintains steady growth backed by steady demand in first half 2010. The Board of Directors expects increase in demand for EDCCS solutions and Labels in tandem with the recovery of the regional economy.

In addition, the labels manufacturing facility in Hong Kong had finally kicked off and became operational in the first week of May. As planned, this had enabled the Group to supply to the demand of the Hong Kong & China customers from this facility, thus, increasing efficiency and productivity.

Overall, the Board is optimistic and expects the Group to record positive performance for the financial year ending 31 December 2010 in every country of presence.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010

B4. TAXATION

	Current quarter ended 31/03/2010 RM'000	Year to Date ended 31/03/2010 RM'000
	RM'000	RM'000
Estimated income tax :		
Malaysia income tax	198	198
Foreign income tax	32	32
	230	230

- (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 2010

There were no corporate proposals announced but not completed as at 27 May 2010, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

B8. BORROWINGS

The borrowings of the Company as at 31 March 2010 were as follows:-

	At 31/03/2010	At 31/03/2009
	RM'000	RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,356	3,793
Overdraft	379	999
Term loan	1,054	1,678
Hire purchase payables & Lease	803	683
	8,592	7,153
Secured Long-term (due after 12 months):		
Term loan	3,617	2,541
Hire purchase payables & Lease	855	1,818
	4,472	4,359
Total Borrowings	13,064	11,512

There was no unsecured borrowing for the current quarter. All borrowings were 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 2010, 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 2010.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2010**

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 owners of the Company of approximately RM1.773 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 135,854,710 as follows:-

	Current quarter Ended 31/03/2010	Year to Date Ended 31/03/2010
Net profit attributable to ordinary equity holders of the parent (RM'000)	1,773	1,773
Weighted average number of ordinary shares in issue ('000)	135,855	135,855
Basic earnings/(loss) per share (sen)	1.30	1.30

(b) **Diluted earnings per share**

There is no dilution in earnings per share as there was no dilutive potential ordinary share as at 31 March 2010.

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