NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2011

PART A – EXPLANATORY NOTES

A1. BASIS OF PREPARATION

The interim financial report is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standards (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 2010.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following:

i) Adoption of the new Financial Reporting Standards (FRSs), Amendment to FRSs, Interpretations and Technical Release for the financial period beginning on or after 1 January 2011.

FRS 3	Business Combinations (revised)
FRS 7	Financial Instruments: Disclosures
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 3	Business Combinations. Amendments relating to measurement noncontrolling interests and un-replaced and voluntarily replaced share-based payment awards
Amendments to FRS 7	Improving Disclosures about Financial Instruments. Amendments relating to the fair value measurement using fair value hierarchy and disclosure of liquidity risk
Amendments to FRS 7	Financial Instruments: Disclosures. Amendments relating to classification of disclosures and transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised FRS
Amendments to FRS 101	Presentation of Financial Statements. Amendment relating to clarification of statement of changes in equity
Amendments to FRS 121	The Effects of Changes in Foreign Exchange Rates. Amendment relating to transition requirements for amendments arising as a result of FRS 127
Amendment to FRS 128	Investment in Associates. Amendment relating to transition requirements for amendments arising as a result of FRS 127
Amendment to FRS 132	Financial Instruments: Presentation. Amendment relating to transition requirements for contingent consideration from a business combination that occurred before the effective date of revised FRS 3
Amendment to FRS 134	Interim Financial Reporting. Amendment relating to significant events and transactions
Amendment to FRS 139	Financial Instruments: Recognition and Measurement. Amendment relating to transition requirements for contingent consideration from a business combination that occurred before the effective date of revised FRS 3

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2011

A1. BASIS OF PREPARATION (CONT'D)

ii) New and Revised FRSs, IC Interpretations and Amendments issued but are not yet effective

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") has issued a new MASB accounting framework, the Malaysian Financial Reporting Standards ("MFRS"), Improvement to MFRSs and IC Interpretations. The MRS framework and IC Interpretations are to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012. The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

A2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2010 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.

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 the financial period ended 31 December 2011 save for the following:-

(a) The details of shares held as treasury shares are as follows:

	Number of Treasury shares
Balance as at 30 September 2011	30,000
Repurchased during the quarter ended 31 December 2011	208,700
Re-issued treasury shares	-
Balance as at 31 December 2011	238,700

The average price paid for the shares repurchased in aggregate was RM0.39 per share and the repurchase transaction costs were financed by internally generated funds.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2011**

A6. DEBT AND EQUITY SECURITIES (CONT'D)

(b) On 14 June 2011, 14,367,347 new ordinary shares of RM0.10 each in Grand-Flo were issued at an issue price of RM0.43 per share pursuant to the private placement exercise announced to the Bursa Securities on 1 June 2011 . The proceeds from the new issuance amounted to RM6,177,959 has been utilised for working capital including related expenses for the private placement exercise and repayment of the Group's bank borrowings.

A7. DIVIDEND PAID

There was no dividend paid during the financial period ended 31 December 2011.

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 31/12/2011				Quarter Ended 31/12/2010			
	Malaysia RM'000	Others RM'000	Eliminations RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Eliminations RM'000	Group RM'000
EDCCS*	12,875	2,703	(2,056)	13,522	11,642	3,450	(1,681)	13,411
Labels	7,143	679	(1,151)	6,671	7,176	-	(1,130)	6,046
Total Revenue	20,018	3,382	(3,207)	20,193	18,818	3,450	(2,811)	19,457

	Period Ended 31/12/2011				Period Ended 31/12/2010			
	Malaysia RM'000	Others RM'000	Eliminations RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Eliminations RM'000	Group RM'000
EDCCS*	55,403	7,249	(12,601)	50,051	44,096	9,736	(7,782)	46,050
Labels	27,706	1,842	(4,660)	24,888	27,109	-	(4,512)	22,597
Total Revenue	83,109	9,091	(17,261)	74,939	71,205	9,736	(12,294)	68,647

A8. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories

Quarter Ended 31.12.2011	EDCCS* RM '000	Labels RM '000	Eliminations RM '000	Total RM '000
Revenue				
Sales to external customers	13,522	6,671	-	20,193
Inter-segment sales	2,056	1,151	(3,207)	-
Total revenue	15,578	7,822	(3,207)	20,193
Segment profit	1,467	648		2,115
Net profit for the period is arrived at after crediting:				
Interest income	5	-		5
Gain on foreign exchange	19	-		19
Share of results of associates	1,394	(4)		1,390
and after charging				
Finance cost	102	50		152
Depreciation and amortisation	294	76		370
Income tax expenses	118	15		133

Period Ended 31.12.2011	EDCCS* RM '000	Labels RM '000	Eliminations RM '000	Total RM '000
Revenue				
Sales to external customers	50,051	24,888	-	74,939
Inter-segment sales	12,601	4,660	(17,261)	-
Total revenue	62,652	29,548	(17,261)	74,939
Segment profit	6,829	2,396		9,225
Net profit for the period is arrived at after crediting:				
Interest income	22	1		23
Gain on foreign exchange	345	3		348
Share of results of associates	1,727	(40)		1,687
and after charging				
Finance cost	396	199		595
Depreciation and amortisation	1,093	1,031		2,124
Income tax expenses	247	590		837

A8. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories (cont'd)

Quarter Ended 31.12.2010	EDCCS* RM '000	Labels RM '000	Eliminations RM '000	Total RM '000
Revenue				
Sales to external customers	13,411	6,046	-	19,457
Inter-segment sales	1,681	1,130	(2,811)	-
Total revenue	15,092	7,176	(2,811)	19,457
Segment profit	766	677		1,443
Net profit for the period is arrived at after crediting:				
Interest income	4	1		5
Gain on foreign exchange	403	-		403
Share of results of associates	(42)	(38)		(80)
and after charging				
Finance cost	89	91		180
Depreciation and amortisation	105	54		159
Income tax expenses	170	(29)		141

Period Ended 31.12.2010	EDCCS* RM '000	Labels RM '000	Eliminations RM '000	Total RM '000
Revenue				
Sales to external customers	46,050	22,597	-	68,647
Inter-segment sales	7,782	4,512	(12,294)	-
Total revenue	53,832	27,109	(12,294)	68,647
Segment profit	5,358	2,337		7,695
Net profit for the period is arrived at after crediting:				
Interest income	10	-		10
Gain on foreign exchange	897	2		899
Share of results of associates	1,313	(85)		1,228
and after charging				
Finance cost	426	248		674
Depreciation and amortisation	468	840		1,308
Income tax expenses	109	731		840

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

A8. OPERATING SEGMENT (CONT'D)

(c) Other than the items mentioned above which have been included in the statement of comprehensive income, there were no other income including investment income, provision for and write off of receivables and inventories, gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets, gain or loss on derivatives and exceptional items for the current quarter and financial year ended 31 December 2011.

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 2011, all property, plant and equipment were stated at cost less accumulated depreciation.

A10. SUBSEQUENT EVENTS

There were no other material events subsequent to the end of the current quarter ended 31 December 2011.

A11. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group for the current 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 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 2011**

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

B1. REVIEW OF OVERALL PERFORMANCE

Grand-Flo achieved a revenue of RM20.2 million for the quarter under review representing an increase of 3.8% as compared to the quarter ended 31 December 2010 of RM19.5 million. The increase was due to the overall increase in the business of local and regional EDCCS and Labels divisions.

The Group's profit before taxation ("PBT") of RM2.2 million for the current quarter ended 31 December 2011 reduced 25.9% from RM3.0 million recorded in the previous quarter ended 30 September 2011. This was mainly due to financial year end provisions of certain overheads.

The PBT increase 41.9% as compared to the corresponding quarter of the preceding year of RM1.6 million. This was contributed mainly by the strong performance of our overseas associate company in the current quarter under review.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The EDCCS division recorded an increase of RM0.1 million in revenue representing 1.0% growth for the current quarter ended 31 December 2011 over last year's corresponding quarter. The PBT of the segment for the current quarter was RM1.6 million representing an increase of 31.4% as compared to the corresponding quarter of the preceding year but 35.5% lower than the preceding quarter of the current year. The drop was mainly due to provisions made for certain operating overheads at year end.

ii) Labels Business Segment

The Labels division recorded an increase of RM0.6 million in revenue representing 10.3% growth for the current quarter ended 31 December 2011 over last year's corresponding quarter. This was contributed by production expansion in existing facilities including the commencement of the new clean-room production facility in Malaysia. In tandem with the increase in revenue, the segment recorded a higher PBT of 75.7% as compared to the corresponding quarter of preceding year was mainly due to better margin attained by Labels business segment and 15.2% higher as compared preceding quarter of the current year.

B3. COMMENTARY ON PROSPECTS

Based on secured orders pending delivery and projects in the pipelines, the Group expects to continue recording positive growth for both the EDCCS and Labels divisions.

Barring any unforeseen events and changes of business environment, the Board of Directors is confident that the Group's growth momentum will continue to 2012.

B4. TAXATION

	Quarter ended 31/12/2011 RM'000	Period ended 31/12/2011 RM'000
Estimated income tax :		
Malaysia income tax	13	650
Foreign income tax	120	187
	133	837

(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 is 16.50% while the effective tax rate for current quarter is 17%.

B5. STATUS OF CORPORATE PROPOSALS AS AT 20 FEBRUARY 2012

There were no corporate proposals announced but not completed as at 20 February 2012, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

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B6. BORROWINGS

The borrowings of the Company as at 31 December 2011 were as follows:-

	Period ended 31/12/2011 RM'000	Period ended 31/12/2010 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,354	7,017
Overdraft	356	1,067
Term loan	1,260	1,522
Hire purchase payables & Lease	1,296	910
	9,266	10,516
Secured Long-term (due after 12 months):		
Term loan	2,348	3,538
Hire purchase payables & Lease	833	833
	3,181	4,371
Total Borrowings	12,447	14,887

There was no unsecured borrowing for the current quarter. All borrowings were denominated in Ringgit Malaysia.

B7. MATERIAL LITIGATION

As at 20 February 2012, being the date of this report, the Directors are not aware of any material litigations or claims against the Group and Company.

B8. PROPOSED DIVIDEND PAYABLE

No dividend was proposed or declared for the current financial period ended 31 December 2011.

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B9. REALISED AND UNREALISED PROFIT DISCLOSURE

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits is as follows :-

	Period ended 31/12/2011 RM'000	Period ended 31/12/2010 RM'000
Total retained profits of the Group:		
-Realised	30,791	-
-Unrealised	358	-
	31,149	
Total share of retained profits from the associates		
-Realised	5,656	-
Less: Consolidation adjustments	(11,103)	-
Total Group retained profits as per consolidated accounts	25,702	-

Note: Comparative figures are not required in the first financial year of complying the "Realised and Unrealised Profits/Losses Disclosure".

B10. 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 RM2.108 million and RM9.213 million for the current quarter and cumulative year to date respectively, 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 159,452,825 and 152,761,184 respectively as follows:-

	Quarter Ended 31/12/2011	Period ended 31/12/2011
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,108	9,213
Weighted average number of ordinary shares in issue ('000)	159,453	152,761
Basic earnings per share (sen)	1.32	6.03

B10. EARNINGS PER SHARE (CONT'D)

(b) **Diluted earnings per share**

The Group diluted earnings per share 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.

	Quarter Ended 31/12/2011	Period ended 31/12/2011
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,108	9,213
Weighted average number of ordinary shares in issue ('000)	159,453	152,761
Effect of conversion of warrants ('000)	67,912	67,912
Diluted earnings per share (sen)	0.93	4.17