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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
 FOR THE QUARTER ENDED 31 MARCH 2012**

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**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 2011.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2011, except for the adoption of the following:

**i) Adoption of New or Revised Financial Reporting Standards (“FRSs”)**

**Effective for financial period beginning 1 March 2010**

- a) Amendment to FRS 132 - Financial Instruments: Presentation. Amendments relating to classification of right issues

**Effective for financial period beginning 1 July 2010**

- a) FRS 1 - First-time Adoption of Financial Reporting Standards (Revised)
- b) FRS 3 - Business Combinations (Revised)
- c) FRS 127 - Consolidated and Separate Financial Statements (Revised)
- d) IC Interpretation 12 - Service Concession Arrangements
- e) IC Interpretation 17 - Distributions of Non-cash Assets to Owners
- f) Improvements to FRSs issued in 2009

**Effective for financial period from 30 August 2010**

- a) Amendment to IC Interpretation 15 - Agreements for the Construction of Real Estate. Amendment relating to the deterrent of the effective date of the IC Interpretation 15



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**A1. BASIS OF PREPARATION (CONT'D)**

**Effective for financial period beginning on or after 1 January 2011**

- a) Amendment to FRS 1 - Limited Exemption from Comparative FRS 7 Disclosures for First time Adopters. Amendment relating to transition provisions for first-time adopter
- b) Amendments to FRS 1 - Additional Exemptions for First-time Adopters. Amendments relating to exemptions for entities in the oil and gas industry and those with leasing contracts
- c) Amendments to FRS 2 - Group cash-settled share-based Payment Transactions. Amendments to prescribe the accounting treatment for share-based payment transaction
- d) 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
- e) IC Interpretation 4 - Determining whether an Arrangement contains a Lease
- f) IC Interpretation 18 - Transfer of Assets from customers
- g) Improvements to FRSS issued in 2010 and mandatory for annual financial periods beginning on or after 1 January 2011.

**ii) Standards issued but not yet effective**

**New MASB Approved Accounting Standards**

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 2011 was not subject to any qualification.

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

There were no unusual items during this quarter.



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**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 March 2012 save for the following:-

Details of treasury shares held are as follows:

	<b>Number of Treasury shares</b>
Balance as at 1 January 2012	238,700
Repurchased during the quarter ended 31 March 2012	217,800
Re-issued treasury shares	-
Balance as at 31 March 2012	<u>456,500</u>

The average price paid for the shares repurchased in aggregate was RM0.40 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 2012.

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**GRAND-FLO SOLUTION**

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**A8. OPERATING SEGMENT**

**(a) Analysis of revenue by geographical area**

	Quarter Ended 31/3/2012				Quarter Ended 31/3/2011			
	<u>Malaysia</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>	<u>Malaysia</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	12,233	3,668	(2,770)	13,131	12,129	1,815	(2,811)	11,133
Labels	6,947	415	(127)	7,235	6,717	301	(1,125)	5,893
Total Revenue	19,180	4,083	(2,897)	20,366	18,846	2,116	(3,936)	17,026

  

	Period Ended 31/3/2012				Period Ended 31/3/2011			
	<u>Malaysia</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>	<u>Malaysia</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	12,233	3,668	(2,770)	13,131	12,129	1,815	(2,811)	11,133
Labels	6,947	415	(127)	7,235	6,717	301	(1,125)	5,893
Total Revenue	19,180	4,083	(2,897)	20,366	18,846	2,116	(3,936)	17,026

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 MARCH 2012**

**A8. OPERATING SEGMENT (CONT'D)**

**(b) Analysis of revenue by product categories**

<b>Quarter Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2012</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	13,131	7,235	-	20,366
Inter-segment sales	2,770	127	(2,897)	-
<b>Total revenue</b>	<b>15,901</b>	<b>7,362</b>	<b>(2,897)</b>	<b>20,366</b>
<b>Results</b>				
Interest income	10	-	-	10
Finance cost	98	35	-	133
Depreciation and amortisation	333	281	-	614
Foreign exchange gain or loss	65	2	-	67
Share of results of associates	464	1	-	465
Income tax expense	86	139	-	225
<b>Segment profit</b>	<b>1,656</b>	<b>559</b>	<b>-</b>	<b>2,215</b>

<b>Period Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2012</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	13,131	7,235	-	20,366
Inter-segment sales	2,770	127	(2,897)	-
<b>Total revenue</b>	<b>15,901</b>	<b>7,362</b>	<b>(2,897)</b>	<b>20,366</b>
<b>Results</b>				
Interest income	10	-	-	10
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Share of results of associates	464	1	-	465
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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**A8. OPERATING SEGMENT (CONT'D)**

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

<b>Quarter Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	11,133	5,893	-	17,026
Inter-segment sales	2,811	1,125	(3,936)	-
<b>Total revenue</b>	<b>13,944</b>	<b>7,018</b>	<b>(3,936)</b>	<b>17,026</b>
<b>Results</b>				
Interest income	4	-	-	4
Finance cost	116	37	-	153
Depreciation and amortisation	105	58	-	163
Foreign exchange gain or loss	17	-	-	17
Share of results of associates	193	(17)	-	176
Income tax expense	20	179	-	199
<b>Segment profit</b>	<b>1,576</b>	<b>513</b>	<b>-</b>	<b>2,089</b>

<b>Period Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	11,133	5,893	-	17,026
Inter-segment sales	2,811	1,125	(3,936)	-
<b>Total revenue</b>	<b>13,944</b>	<b>7,018</b>	<b>(3,936)</b>	<b>17,026</b>
<b>Results</b>				
Interest income	4	-	-	4
Finance cost	116	37	-	153
Depreciation and amortisation	105	58	-	163
Foreign exchange gain or loss	17	-	-	17
Share of results of associates	193	(17)	-	176
Income tax expense	20	179	-	199
<b>Segment profit</b>	<b>1,576</b>	<b>513</b>	<b>-</b>	<b>2,089</b>

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

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 March 2012.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**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 2012, 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 March 2012.

**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 except for the following:-

	<b>Quarter ended 31/3/2012 RM'000</b>	<b>Period ended 31/3/2012 RM'000</b>
Sales to a major shareholder	420	420
	420	420

The above related party transactions are recurrent transactions of a revenue or trading nature and are at arm's length entered in the ordinary course of business on terms not more favourable to the related party than those generally available to the public.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**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's revenue for the quarter under review recorded an increase of RM3.3 million representing 19.6% increase to RM20.4 million against last year corresponding quarter. The increase was mainly contributed by the increase in the demand for the Group's EDCCS in Hong Kong and China whilst the domestic market recorded slightly higher revenue than last year's corresponding quarter.

The Group's profit before taxation ("PBT") of RM2.4 million for the current quarter ended 31 March 2012 increased 6.6% from RM2.3 million achieved in the corresponding quarter of the preceding year. This was contributed by better performance of our Hong Kong & China operations and our Thai associate in the current quarter under review.

The PBT increase 8.5% or RM0.2 million to RM 2.4 million as compared to RM2.2 million in the previous quarter ended 31 December 2011. This was mainly due to the increase in revenue and lower operating overheads for the current quarter under review as compared to the previous quarter ended 31 December 2011 where year-end provisions for certain operating overheads were included.

**B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS**

**i) EDCCS Segment**

The EDCCS division recorded an increase of RM2.0 million in revenue representing 17.9% growth for the current quarter ended 31 March 2012 over last year's corresponding quarter. The PBT of the segment for the current quarter was RM1.7 million, increased 9.3% or RM0.1 million as compared to the corresponding quarter of the preceding year and increased 10.0% from RM1.6 million in the previous quarter ended 31 December 2011. The increase was mainly due the strong performance of overseas subsidiary and associate companies in the current quarter under review and the decrease of operating overheads as compared to previous quarter.

**ii) Labels Business Segment**

The Labels division recorded an increase of RM1.3 million in revenue representing 22.8% growth for the current quarter ended 31 March 2012 over last year's corresponding quarter. This was contributed by higher utilization of production capacity in the existing facilities. . Despite the increase in revenue, PBT remained RM0.7 million as compared to the corresponding quarter of the preceding year mainly due to slight drop in overall margin in the labels business.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**B3. COMMENTARY ON PROSPECTS**

With the strategies put in place and orders in the book, the Board of Directors are confident that the Group will continue to record good performances.

This includes:-

- i. The expansion of the labels division to include production of clean-room labels which should be operational latest by the third quarter of this year.
- ii. The Group's strategic tie-up with HeiTech Padu Berhad which may see synergistic results as early as the second half of this year.
- iii. The Group's continued alliances with companies of worldwide established reputation in the automated identification industry to penetrate into new multi-national accounts in the region.

**B4. TAXATION**

	<b>Quarter ended 31/3/2012 RM'000</b>	<b>Period ended 31/3/2012 RM'000</b>
Estimated income tax :		
Malaysia income tax	139	139
Foreign income tax	86	86
	225	225

- (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%.

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ACE - listed company

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 MARCH 2012**

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**B5. STATUS OF CORPORATE PROPOSALS AS AT 7 May 2012**

There were no corporate proposals announced but not completed as at 7 May 2012, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report except for the following:

- (i) On 3 May 2012, the Company announced a proposed bonus issue of 227,365,280 new ordinary shares of RM0.10 each (“Bonus Shares”) in Grand-Flo (“Grand-Flo Shres”) to be issued and credited as fully paid-up to the shareholders of Grand-Flo on the basis of one (1) bonus share for every one (1) existing share held. The Company is currently in the course of submitting an application to Bursa Securities for the listing of and quotation for the Bonus Shares on the ACE Market of Bursa Securities. (“Proposed Bonus Issue”)

The Proposed Bonus Issue may give rise to adjustments to the exercise price and number of Warrants 2010/2015 so far as unexercised pursuant to the Company’s deed poll dated 12 March 2010 (“Deed Poll”).

Any adjustment which is required will be made in accordance with the provisions of the Deed Poll to mitigate any potential equity dilution resulting from the Proposed Bonus Issue and to ensure that the status of the Warrants holders are not prejudiced after the Proposed Bonus Issue. The rights and obligations of the Warrants holders will remain unchanged, save for the adjustments to the exercise price and number of Warrants 2010/2015 so far as unexercised.

Any necessary adjustment arising from the Proposed Bonus Issue in relation to the outstanding Warrants 2010/2015 will only be finalised on the Entitlement Date.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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**B6. BORROWINGS**

The borrowings of the Company as at 31 March 2012 were as follows:-

	<b>Period ended 31/3/2012 RM'000</b>	<b>Period ended 31/3/2011 RM'000</b>
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	3,843	6,181
Overdraft	487	1,291
Term loan	1,284	653
Hire purchase payables & Lease	984	376
	<u>6,598</u>	<u>8,501</u>
Secured Long-term (due after 12 months):		
Term loan	2,099	3,845
Hire purchase payables & Lease	914	1,411
	<u>3,013</u>	<u>5,256</u>
Total Borrowings	<u>9,611</u>	<u>13,757</u>

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

**B7. MATERIAL LITIGATION**

As at 7 May 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 March 2012.



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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
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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 :-

	<b>Period ended 31/3/2012 RM'000</b>	<b>Period ended 31/3/2011 RM'000</b>
Total retained profits of the Group:		
-Realised	33,077	-
-Unrealised	262	-
	<u>33,339</u>	<u>-</u>
Total share of retained profits from the associates		
-Realised	5,636	-
	<u>5,636</u>	<u>-</u>
Less: Consolidation adjustments	(10,744)	-
	<u>(10,744)</u>	<u>-</u>
Total Group retained profits as per consolidated accounts	<u>28,231</u>	<u>-</u>

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 RM2.215 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:-

	<b>Quarter Ended 31/3/2012</b>	<b>Period ended 31/3/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,215	2,215
Weighted average number of ordinary shares in issue ('000)	159,453	159,453
Basic earnings per share (sen)	<u>1.39</u>	<u>1.39</u>

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
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**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.

	<b>Quarter Ended 31/3/2012</b>	<b>Period Ended 31/3/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,215	2,215
Weighted average number of ordinary shares in issue ('000)	159,453	159,453
Effect of conversion of warrants ('000)	67,912	67,912
Diluted earnings per share (sen)	0.97	0.97