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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 30 JUNE 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:

The Group has adopted all the new and revised MFRSs and IC Interpretations which are relevant and effective for accounting periods beginning on or after 1 January 2012. The adoption of these new and revised MFRSs and IC Interpretations did not result in any changes to significant accounting policies of the Group.

**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.

**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 the financial period ended 30 June 2012 save for the following:-

(i) Details of treasury shares held are as follows:

	<b>Number of Treasury shares</b>
Balance as at 1 April 2012	456,500
Repurchased during the quarter ended 30 June 2012	-
Re-issued treasury shares	<u>(456,500)</u>
Balance as at 30 June 2012	<u>-</u>

The average price received for the shares reissued in aggregate was RM0.45 per share.

(ii) Issuance of 330,100 new ordinary shares of RM0.25 each on 18 June 2012 pursuant to the conversion of Warrants 2010/2015 into ordinary shares. The proceeds therefrom were utilised as working capital.

**A7. DIVIDEND PAID**

There was no dividend paid during the financial period ended 30 June 2012.

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**A8. OPERATING SEGMENT****(a) Analysis of revenue by geographical area**

	Quarter Ended 30/6/2012				Quarter Ended 30/6/2011			
	<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*	19,279	1,461	(4,188)	16,552	14,635	1,482	(4,231)	11,886
Labels	6,992	295	(1,270)	6,017	7,170	504	(1,182)	6,492
<b>Total Revenue</b>	<b>26,271</b>	<b>1,756</b>	<b>(5,458)</b>	<b>22,569</b>	<b>21,805</b>	<b>1,986</b>	<b>(5,413)</b>	<b>18,378</b>

  

	Period Ended 30/6/2012				Period Ended 30/6/2011			
	<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*	31,512	5,128	(6,958)	29,682	26,763	3,297	(7,042)	23,018
Labels	13,941	709	(2,451) ^	12,199	13,887	805	(2,307)	12,385
<b>Total Revenue</b>	<b>45,453</b>	<b>5,837</b>	<b>(9,409)</b>	<b>41,881</b>	<b>40,650</b>	<b>4,102</b>	<b>(9,349)</b>	<b>35,403</b>

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

^ Restated

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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**

<b>Quarter Ended</b> <b>30.6.2012</b>	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
<b>Revenue</b>				
Sales to external customers	16,551	6,018	-	22,569
Inter-segment sales	4,188	1,270	(5,458)	-
<b>Total revenue</b>	<b>20,739</b>	<b>7,288</b>	<b>(5,458)</b>	<b>22,569</b>
<b>Results</b>				
Interest income	8	-	-	8
Finance cost	96	115	-	211
Depreciation and amortisation	330	295	-	625
Foreign exchange gain or loss	(54)	-	-	(54)
Share of results of associates	406	-	-	406
Income tax expense	9	135	-	144
<b>Segment profit</b>	<b>1,684</b>	<b>568</b>	<b>-</b>	<b>2,252</b>

<b>Period Ended</b> <b>30.6.2012</b>	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
<b>Revenue</b>				
Sales to external customers	29,682	12,199	-	41,881
Inter-segment sales	6,958	2,451 ^	(9,409)	-
<b>Total revenue</b>	<b>36,640</b>	<b>14,650</b>	<b>(9,409)</b>	<b>41,881</b>
<b>Results</b>				
Interest income	18	-	-	18
Finance cost	193	151	-	344
Depreciation and amortisation	663	576	-	1,239
Foreign exchange gain or loss	10	2	-	12
Share of results of associates	870	1	-	871
Income tax expense	95	274	-	369
<b>Segment profit</b>	<b>3,340</b>	<b>1,127</b>	<b>-</b>	<b>4,467</b>

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

^ Restated

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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>30.6.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	11,886	6,492	-	18,378
Inter-segment sales	4,231	1,182	(5,413)	-
<b>Total revenue</b>	<b>16,117</b>	<b>7,674</b>	<b>(5,413)</b>	<b>18,378</b>
<b>Results</b>				
Interest income	4	-	-	4
Finance cost	79	43	-	122
Depreciation and amortisation	103	69	-	172
Foreign exchange gain or loss	26	(5)	-	21
Share of results of associates	273	9	-	282
Income tax expense	64	265	-	329
<b>Segment profit</b>	<b>1,376</b>	<b>789</b>	<b>-</b>	<b>2,165</b>

<b>Period Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>30.6.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	23,018	12,385	-	35,403
Inter-segment sales	7,042	2,307	(9,349)	-
<b>Total revenue</b>	<b>30,060</b>	<b>14,692</b>	<b>(9,349)</b>	<b>35,403</b>
<b>Results</b>				
Interest income	6	-	-	6
Finance cost	195	85	-	280
Depreciation and amortisation	258	483	-	741
Foreign exchange gain or loss	30	-	-	30
Share of results of associates	(79)	(26)	-	(105)
Income tax expense	84	444	-	528
<b>Segment profit</b>	<b>2,950</b>	<b>1,304</b>	<b>-</b>	<b>4,254</b>

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

^ Restated

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 30 June 2012.



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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 30 June 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 under review, save as disclosed in the notes herein.

**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 30/6/2012 RM'000</b>	<b>Period ended 30/6/2012 RM'000</b>
Sales to a major shareholder	<u>628</u>	<u>1,048</u>

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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**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 RM4.2 million representing 22.8% increase to RM22.6 million against last year corresponding quarter. The increase in revenue was mainly due to the contribution from the domestic demand for the EDCCS.

The Group's profit before taxation ("PBT") dropped by 3.9% from RM2.5 million in the corresponding quarter of the preceding year to RM2.4 million for the current quarter ended 30 June 2012. The decrease is attributable to lower gross profit margin for domestic EDCCS as compared to previous year.

With the steady revenue growth, PBT margin was maintained at about 11% or RM2.4 million for the second consecutive quarters of year 2012.

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

**i) EDCCS Segment**

The EDCCS division recorded an increase of RM4.7 million in revenue representing 39.3% growth for the current quarter ended 30 June 2012 over last year's corresponding quarter. The PBT of the segment for the current quarter was RM1.7 million, increased 17.6% or RM0.3 million as compared to the corresponding quarter of the preceding year. Its maintained at RM1.7 million as compared to previous quarter ended 31 March 2012.

**ii) Labels Business Segment**

For the current quarter under review, Labels division recorded a decrease in revenue of RM0.5 million or 7.3% as compared to the immediate preceding quarter. The PBT of the segment for the current quarter was RM0.7 million, reduced 33.3% or RM0.4 million as compared to the corresponding quarter of the preceding year. Despite the decrease in revenue, PBT remained RM0.7 million as compared to previous quarter ended 31 March 2012.

**B3. COMMENTARY ON PROSPECTS**

Despite the global economic slowdown, the Board of Directors are confident that the strategies put in place will deliver satisfactory results this year.

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**B4. TAXATION**

	<b>Quarter ended 30/6/2012 RM'000</b>	<b>Period ended 30/6/2012 RM'000</b>
Estimated income tax :		
Malaysia income tax	139	277
Foreign income tax	5	92
	144	369

- (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 16 AUGUST 2012**

There were no corporate proposals announced but not completed as at 16 August 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) The Company had on 22 February 2012 announced its intents to transfer of the listing and the quotation for its entire issued and paid-up share capital from the ACE Market to the Main Market of Bursa Securities (“Proposed Transfer Listing”). The Company has also appointed OSK Investment Bank Berhad (“OSK”) and other advisers to advise the Company on the Proposed Transfer Listing.

OSK had on 30 May 2012 submitted the application for the Proposed Transfer Listing to the Securities Commission Malaysia (“SC”). SC had, vide its letter dated 10 August 2012, approved the Proposed Transfer Listing.

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**B5. STATUS OF CORPORATE PROPOSALS AS AT 16 AUGUST 2012 (CONT'D)**

- (ii) 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 Shares") 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. ("Bonus Issue")

The 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.

On 17 July 2012, the Group had completed the Bonus Issue of additional 159,782,925 Bonus Shares and 67,582,355 Warrants 2010/2015 consequential to the Bonus Issue have been quoted and listed in Bursa Securities. As a result of the Bonus Issue, the exercise price of Warrants 2010/2015 has been adjusted to RM0.12.

**B6. BORROWINGS**

The borrowings of the Company as at 30 June 2012 were as follows:-

	<b>As at 30/6/2012 RM'000</b>	<b>As at 30/6/2011 RM'000</b>
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,429	6,354
Overdraft	361	353
Term loan	1,245	312
Hire purchase & Lease payables	930	190
	<u>8,965</u>	<u>7,209</u>
Secured Long-term (due after 12 months):		
Term loan	2,048	3,658
Hire purchase & Lease payables	944	2,449
	<u>2,992</u>	<u>6,107</u>
Total Borrowings	<u>11,957</u>	<u>13,316</u>

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



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**B7. MATERIAL LITIGATION**

As at 16 August 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**

A proposed final dividend of 1.2 sen per share comprising a gross dividend of 0.037 sen per share (less income tax at 25%) and a tax exempt dividend of 1.163 sen per share in respect of financial year ended 31 December 2011 was approved by the shareholders during the Annual General Meeting held on 22 June 2012 and subsequently paid on 31 July 2012.

**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 30/6/2012 RM'000</b>	<b>Period ended 30/6/2011 RM'000</b>
Total retained profits of the Group:		
-Realised	34,916	-
-Unrealised	265	-
	<u>35,181</u>	<u>-</u>
Total share of retained profits from the associates		
-Realised	6,384	-
	<u>6,384</u>	<u>-</u>
Less: Consolidation adjustments	(11,086)	-
	<u>(11,086)</u>	<u>-</u>
Total Group retained profits as per consolidated accounts	<u>30,479</u>	<u>-</u>

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

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**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 RM2.248 million and RM4.463 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 159,499,982 and 159,476,404 respectively as follows:-

	<b>Quarter Ended 30/6/2012</b>	<b>Period Ended 30/6/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,248	4,463
Weighted average number of ordinary shares in issue ('000)	159,500	159,476
Basic earnings per share (sen)	1.41	2.80

(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 30/6/2012</b>	<b>Period Ended 30/6/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,248	4,463
Weighted average number of ordinary shares in issue ('000)	159,500	159,476
Effect of conversion of warrants ('000)	67,865	67,889
Diluted earnings per share (sen)	0.99	1.96