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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 DECEMBER 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 Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial issued by Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 (Appendix 9B part A) of the Main Market listing requirement of the Bursa Malaysia Securities Berhad (“Bursa Securities”).

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 31 December 2012 save for the following:-

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

	<b>Number of Treasury shares</b>
Balance as at 30 September 2012	10,000
Repurchased during the quarter ended 31 December 2012	1,383,200
Re-issued treasury shares	-
Balance as at 31 December 2012	1,393,200

The average price received for the shares reissued in aggregate was RM0.22 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.
- (iii) On 17 July 2012, a total of 159,782,925 new ordinary shares of RM0.10 each and 67,582,355 Warrants 2010/2015 were issued pursuant to the Company's bonus issue exercise.

**A7. DIVIDEND PAID**

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 paid on 31 July 2012.

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**A8. OPERATING SEGMENT**

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

	Quarter Ended 31/12/2012				Quarter Ended 31/12/2011			
	<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*	17,738	2,834	(2,451)	18,121	17,346	2,736	(6,525)	13,557
Labels	5,877	393	(1,124)	5,146	7,136	689	(1,451)	6,374
Total Revenue	23,615	3,227	(3,575)	23,267	24,482	3,425	(7,976)	19,931
	Period Ended 31/12/2012				Period Ended 31/12/2011			
	<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*	66,667	9,700	(11,572)	64,795	59,865	7,282	(17,068)	50,079
Labels	25,958	1,509	(4,635)	22,832	27,706	1,851	(4,960)	24,597
Total Revenue	92,625	11,209	(16,207)	87,627	87,571	9,133	(22,028)	74,676

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

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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>31.12.2012</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	18,121	5,146	-	23,267
Inter-segment sales	2,451	1,124	(3,575)	-
<b>Total revenue</b>	<b>20,572</b>	<b>6,270</b>	<b>(3,575)</b>	<b>23,267</b>
<b>Results</b>				
Interest income	11	-	-	11
Finance cost	121	54	-	175
Depreciation and amortisation	353	355	-	708
Foreign exchange gain or loss	54	13	-	67
Share of results of associates	1,117	16	-	1,133
Income tax expense	367	39	-	406
<b>Segment profit</b>	<b>1,799</b>	<b>220</b>	<b>-</b>	<b>2,019</b>

<b>Period Ended</b> <b>31.12.2012</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	64,795	22,832	-	87,627
Inter-segment sales	11,572	4,635	(16,207)	-
<b>Total revenue</b>	<b>76,367</b>	<b>27,467</b>	<b>(16,207)</b>	<b>87,627</b>
<b>Results</b>				
Interest income	41	-	-	41
Finance cost	432	239	-	671
Depreciation and amortisation	1,337	1,190	-	2,527
Foreign exchange gain or loss	18	19	-	37
Share of results of associates	2,465	92	-	2,557
Income tax expense	494	433	-	927
<b>Segment profit</b>	<b>5,939</b>	<b>1,965</b>	<b>-</b>	<b>7,904</b>

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

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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>31.12.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	13,557	6,374	-	19,931
Inter-segment sales	6,525	1,451	(7,976)	-
<b>Total revenue</b>	<b>20,082</b>	<b>7,825</b>	<b>(7,976)</b>	<b>19,931</b>
<b>Results</b>				
Interest income	5	-	-	5
Finance cost	102	50	-	152
Depreciation and amortisation	294	76	-	370
Foreign exchange gain or loss	(87)	3	-	(84)
Share of results of associates	1,238	76	-	1,314
Income tax expense	619	571	-	1,190
<b>Segment profit</b>	<b>2,125</b>	<b>165</b>	<b>-</b>	<b>2,290</b>

<b>Period Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.12.2011</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	50,079	24,597	-	74,676
Inter-segment sales	17,068	4,960	(22,028)	-
<b>Total revenue</b>	<b>67,147</b>	<b>29,557</b>	<b>(22,028)</b>	<b>74,676</b>
<b>Results</b>				
Interest income	17	-	-	17
Finance cost	397	198	-	595
Depreciation and amortisation	1,087	1,038	-	2,125
Foreign exchange gain or loss	240	3	-	243
Share of results of associates	1,571	(40)	-	1,531
Income tax expense	475	(1,135)	-	(660)
<b>Segment profit</b>	<b>7,871</b>	<b>1,830</b>	<b>(300)</b>	<b>9,401</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 December 2012.

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**A9. CARRYING AMOUNT OF REVALUED ASSETS**

The Group has adopted a revaluation policy on its property, plant and equipment. The valuation was conducted by independent professional valuers and determined by reference to Fair Market Value basis. As a result of the revaluation, the Company has a revaluation surplus of RM5.9 million.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arises subsequent to the revaluation will be charged against the revaluation reserve to the extent of surplus previously held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount will be charged to income statement.

On disposal of revalued assets, amounts in revaluation reserve relating to those assets will be transferred to retained earnings.

**A10. SUBSEQUENT EVENTS**

Save for the below, there were no other material events subsequent to the end of the current quarter under review.

- (i) As announced to Bursa Securities on 27 February 2013, Grand-Flo's associate company, Simat Technologies Public Company Limited ("Simat") had proposed private placement of up to 16,000,000 new ordinary shares of Thai Baht 1.00 each to various investors at a pre-determined unit price of Thai Baht 7.93, representing not less than 90% of the 15-days weighted average market price between 4 February 2013 to 22 February 2013, to be subscribed by 4 March 2013. The proceeds from the proposed private placement amounting to Thai Baht 126,880,000.00 will be utilized as working capital. Upon completion, the proposed private placement will result in the dilution of Grand-Flo's shareholding in Simat from 33.17% to 30.26%.

**A11. CHANGES IN COMPOSITION OF THE GROUP**

There were no material changes in the composition of the Group for the financial period ended 31 December 2012 save for the following:-

- (i) On 30 June 2012, Labels Network Sdn. Bhd. ("LNSB"), a wholly owned subsidiary of Grand-Flo, entered into a Shares Sale Agreement with Simat Label Co., Ltd ("Simat Label") for the acquisition of Simat Label's 40% equity interest in High Rich Trading & Service Corporation ("High Rich") for a total purchase consideration of USD149,800 ("Acquisition"). The Acquisition is in line with its strategic objective and was deemed completed on 1 July 2012. As a result, High Rich became a 40% owned associate of LNSB.

The Acquisition has no significant impact to the Group for the financial year to date.



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**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 31/12/2012 RM'000</b>	<b>Period ended 31/12/2012 RM'000</b>
Sales to a major shareholder	<u>909</u>	<u>2,345</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 PART A OF APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES FOR THE MAIN MARKET**

**B1. REVIEW OF OVERALL PERFORMANCE**

Grand-Flo's revenue for the quarter under review recorded an increase of RM3.3 million representing 16.7% increase to RM23.2 million against previous year corresponding quarter. The increase in revenue was mainly due to the contribution from the domestic demand for the EDCCS.

The Group's revenue recorded a 17.3% increase for 12 months ended 31 December 2012 from RM74.7 million to RM87.6 million as compared to the preceding year. The increase was mainly driven by higher sales in Malaysia EDCCS.

In spite of increased revenue, the Group's profit before taxation ("PBT") of RM2.4 million for the current quarter ended 31 December 2012 increased 8.0% from RM2.2 million achieved in the corresponding quarter of the preceding year. This was mainly attributable by the lower margin sales of products for the current quarter under review.

The PBT increase 54.5% or RM0.8 million to RM 2.4 million as compared to RM1.6 million in the previous quarter ended 30 September 2012. With the exclusion of the one-off transfer listing expenses, the increase in PBT would have been 0.4% or RM0.1 million.

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

**i) EDCCS Segment**

The EDCCS division recorded an increase in revenue of RM4.6 million over the previous year's corresponding quarter in revenue representing 33.7% growth for the current quarter ended 31 December 2012. The current quarter PBT of RM2.2 million, were increased by 160.3% and 45.5% as compared to the previous quarter and the previous year's corresponding quarter respectively, due to lower operating overheads and higher turnover during the quarter.

With the exclusion of one-off transfer listing expenses, the increase as compared to previous quarter would have been 36.6% or RM0.6 million.

**ii) Labels Business Segment**

For the current quarter under review, Labels division recorded a decrease in revenue of RM1.2 million or 19.3% as compared to previous year's corresponding quarter. The PBT of the segment for the current quarter of RM0.3 million, reduced 64.9% and 65.8% as compared to the previous quarter and the previous year's corresponding quarter respectively.

**B3. COMMENTARY ON PROSPECTS**

Based on the projects in the pipelines, the Board of Directors is confident that the Group's will register better earnings in 2013.



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**B4. TAXATION**

	<b>Quarter ended 31/12/2012 RM'000</b>	<b>Period ended 31/12/2012 RM'000</b>
Estimated income tax :		
Malaysia income tax	362	760
Foreign income tax	44	167
	406	927

- (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 21 FEBRUARY 2013**

There were no corporate proposals announced but not completed as at 21 February 2013, 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 had 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”) and SC had vide its letter dated 10 August 2012 approved the Proposed Transfer Listing.

On 26 September 2012, on behalf of the Company, OSK had announced the listing of and quotation for the entire issued and paid up share capital and the outstanding five year Warrants 2010/2015 of Grand-Flo have been transferred from the ACE Market to the Main Market of Bursa Securities, marking the completion of the Proposed Transfer Listing.

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**B5. STATUS OF CORPORATE PROPOSALS AS AT 21 DECEMBER 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 31 December 2012 were as follows:-

	<b>As at 31/12/2012 RM'000</b>	<b>As at 31/12/2011 RM'000</b>
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	8,977	6,354
Overdraft	444	988
Term loan	1,032	759
Hire purchase & Lease payables	826	845
	<u>11,279</u>	<u>8,946</u>
Secured Long-term (due after 12 months):		
Term loan	1,816	2,849
Hire purchase & Lease payables	1,377	1,284
	<u>3,193</u>	<u>4,133</u>
Total Borrowings	<u>14,472</u>	<u>13,079</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 21 February 2013, 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 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 31/12/2012</b>
Total retained profits of the Group:	
-Realised	33,694
-Unrealised	1,324
	35,018
Total share of retained profits from the associates	
- Realised	7,684
Less: Consolidation adjustments	(10,700)
Total Group retained profits as per consolidated accounts	32,002

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 RM2.013 million and RM7.889 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 319,565,853 and 232,889,087 respectively as follows:-

	<b>Quarter Ended 31/12/2012</b>	<b>Period Ended 31/12/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,013	7,889
Weighted average number of ordinary shares in issue ('000)	319,566	232,889
Basic earnings per share (sen)	0.63	3.39

(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 31/12/2012</b>	<b>Period Ended 31/12/2012</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,013	7,889
Weighted average number of ordinary shares in issue ('000)	319,566	232,889
Effect of conversion of warrants ('000)	135,165	98,504
Diluted earnings per share (sen)	0.44	2.38