
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 MARCH 2013**

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 2012.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2012.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2012 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 March 2013 save for the following:-

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

	Number of Treasury shares
Balance as at 31 December 2012	1,393,200
Repurchased during the quarter ended 31 March 2013	230,000
Re-issued treasury shares	<u>(1,613,200)</u>
Balance as at 31 March 2013	<u>10,000</u>

The average price received for the shares reissued in aggregate was RM0.21 per share.

A7. DIVIDEND PAID

There was no dividend paid during the financial period ended 31 March 2013.

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 31/03/2013				Quarter Ended 31/03/2012			
	<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*	14,123	1,629	(2,160)	13,592	12,233	3,668	(2,770)	13,131
Labels	<u>6,274</u>	<u>264</u>	<u>(1,218)</u>	<u>5,320</u>	<u>6,947</u>	<u>415</u>	<u>(127)</u>	<u>7,235</u>
Total Revenue	<u>20,397</u>	<u>1,893</u>	<u>(3,378)</u>	<u>18,912</u>	<u>19,180</u>	<u>4,083</u>	<u>(2,897)</u>	<u>20,366</u>

	Period Ended 31/03/2013				Period Ended 31/03/2012			
	<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*	14,123	1,629	(2,160)	13,592	12,233	3,668	(2,770)	13,131
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Total Revenue	<u>20,397</u>	<u>1,893</u>	<u>(3,378)</u>	<u>18,912</u>	<u>19,180</u>	<u>4,083</u>	<u>(2,897)</u>	<u>20,366</u>

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

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A8. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories

Quarter Ended 31.03.2013	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
Revenue				
Sales to external customers	13,592	5,320	-	18,912
Inter-segment sales	2,160	1,218	(3,378)	-
Total revenue	15,752	6,538	(3,378)	18,912
Results				
Interest income	19	-	-	19
Gain on deemed disposal of quoted investment (refer note A11)	2,790	-	-	2,790
Finance cost	106	54	-	160
Depreciation and amortisation	429	302	-	731
Foreign exchange gain or loss	(26)	3	-	(23)
Share of results of associates	861	47	-	908
Income tax expense	(19)	103	-	84
Segment profit	4,446	440	(481)	4,405

Period Ended 31.03.2013	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
Revenue				
Sales to external customers	13,592	5,320	-	18,912
Inter-segment sales	2,160	1,218	(3,378)	-
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* 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)

Quarter Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
31.03.2012	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	13,131	7,235	-	20,366
Inter-segment sales	2,770	127	(2,897)	-
Total revenue	15,901	7,362	(2,897)	20,366
Results				
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
Segment profit	1,656	559	-	2,215

Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
31.03.2012	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	13,131	7,235	-	20,366
Inter-segment sales	2,770	127	(2,897)	-
Total revenue	15,901	7,362	(2,897)	20,366
Results				
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
Segment profit	1,656	559	-	2,215

* 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 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 valuations of property, plant and equipment have been brought forward without amendment from the financial statement for the year ended 31 December 2012.

All property, plant and equipment, except for land and building, are stated at cost less accumulated depreciation and less any impairment losses. Land and building are shown at fair values, based on valuations by external independent valuers, less subsequent accumulated depreciation on buildings and any accumulated impairment losses.

A10. SUBSEQUENT EVENTS

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

- (i) Grand-Flo had on 9 April 2013, 10 April 2013, 2 May 2013 and 3 May 2013 disposed of 19,100,000 ordinary shares of THB 1.00 each or 9.59% of the total issued and paid-up share capital of Simat Technologies Public Company Limited (“Simat”), an associate company of Grand-Flo, at THB8.00 per share for a total cash consideration of THB152,800,000 (equivalent to RM15,998,160) (“Disposal”).

Upon completion of the Disposal, Grand-Flo’s shareholdings in Simat reduced to 41,537,500 Simat Shares representing approximately 20.86% from 30.46%. The consideration from the Disposal was fully received on 3 May 2013.

- (ii) Grand-Flo had on 7 May 2013 announced to Bursa Securities that the Company proposes to undertake the following:
- (a) proposed disposal of up to 41,537,500 Simat Shares, representing approximately 20.86% equity interest in Simat, at a disposal price to be determined later (“Proposed Disposal of Simat Shares”);
 - (b) proposed disposal of up to 13,781,250 Simat Warrants at a disposal price to be determined later (“Proposed Disposal of Simat Warrants”);
 - (c) proposed exercise by the Company of up to 13,781,250 Simat Warrants into New Simat Shares at the prevailing exercise price of the Simat Warrants (“Proposed Exercise of Simat Warrants”); and
 - (d) proposed disposal of New Simat Shares consequent to the Proposed Exercise of Simat Warrants at a disposal price to be determined later (“Proposed Disposal of New Simat Shares”).

These proposals are subject to shareholders’ approval at the EGM scheduled on 26 June 2013.

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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 private placement undertaken by Simat in February 2013. Subsequently, Grand-Flo's interest in Simat was diluted from 33.17% to 30.46% and a gain on deemed disposal of RM2.8 million was resulted.

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:-

	Quarter ended 31/03/2013 RM'000	Period ended 31/03/2013 RM'000
Sales to a major shareholder	1,105	1,105

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. As announced on Bursa Securities, Heitech Padu Berhad had on 19 April 2013 ceased to be a substantial shareholder of Grand-Flo.

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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 has reduced by approximately 7.1% or RM1.4 million from RM20.4 million in the previous year's corresponding quarter. Despite a slightly higher sales volume registered by the Malaysia EDCCS, the drop in the Group's revenue was due to lower sales by the overseas subsidiaries and the Labels division for the quarter under review.

The Group's profit before taxation ("PBT") rose 84.0% to RM4.5 million for the current quarter ended 31 March 2013 from RM2.4 million in the previous year's corresponding quarter and improved 90.8% or RM2.1 million as compared to RM2.4 million in the previous quarter ended 31 December 2012 which were mainly due to the gain on deemed disposal of RM2.8 million from Simat's private placement in February 2013 which had resulted in Grand-Flo's interest in Simat to be diluted from 33.17% to 30.46%.

With the exclusion of the gain on deemed disposal of RM2.8 million, the PBT for the current quarter would have dropped by 27.84% and 30.4% to RM1.7 million as compared to the previous quarter and the previous year's corresponding quarter respectively. The lower PBT of RM1.7 million was due to an overall lower sales and profit margin for the current quarter under review.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The EDCCS division recorded an increase in revenue of RM0.5 million over the previous year's corresponding quarter in revenue representing 3.5% growth for the current quarter ended 31 March 2013. The current quarter PBT of RM3.9 million, an increase of 126.4% as compared to the previous year's corresponding quarter was due to the gain on deemed disposal resulted from Simat's private placement during the current quarter.

With the exclusion of the gain on deemed disposal of RM2.8 million, the PBT would have dropped by 49.1% or 33.7% as compared to the previous quarter and the previous year's corresponding quarter respectively. The drop in PBT was due to lower profit margin contribution from its products' sales mix for the quarter.

ii) Labels Business Segment

For the current quarter under review, Labels division recorded a decrease in revenue of RM0.9 million or 13.9% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter of RM0.5 million, reduced 22.1% as compared to the previous year's corresponding quarter but higher by RM0.5 million or 555.1% as compared to previous quarter due to better margin from its current quarter's sales.

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B3. COMMENTARY ON PROSPECTS

Based on the projects secured and in the pipelines, the Board of Directors is confident that the Group will record good performance this financial year. Moving forward, the Group will continue to seek new business and investment opportunities that will generate positive returns.

B4. TAXATION

	Quarter ended 31/03/2013 RM'000	Period ended 31/03/2013 RM'000
Estimated income tax :		
Malaysia income tax	109	109
Foreign income tax	(25)	(25)
	84	84

- (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 23 MAY 2013

There were no corporate proposals announced but not completed as at 23 May 2013, 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 March 2013 were as follows:-

	As at 31/03/2013 RM'000	As at 31/03/2012 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	8,199	3,843
Overdraft	453	487
Term loan	972	1,284
Hire purchase & Lease payables	777	984
	<u>10,401</u>	<u>6,598</u>
Secured Long-term (due after 12 months):		
Term loan	1,721	2,099
Hire purchase & Lease payables	1,154	914
	<u>2,875</u>	<u>3,013</u>
Total Borrowings	<u>13,276</u>	<u>9,611</u>

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

B7. MATERIAL LITIGATION

As at 23 May 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

The Board of Directors has recommended a final tax exempt dividend of 10% or 1 sen per share for the financial year ended 31 December 2012 which is subject to the approval of the shareholders in the forthcoming annual general meeting.

The entitlement and payment shall be finalized and announced in due course.

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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 31/03/2013	Period ended 31/03/2012
Total retained profits of the Group:		
-Realised	33,314	33,077
-Unrealised	2,348	262
	<u>35,662</u>	<u>33,339</u>
Total share of retained profits from the associates		
- Realised	8,596	5,636
Less: Consolidation adjustments	<u>(7,914)</u>	<u>(10,744)</u>
Total Group retained profits as per consolidated accounts	<u>36,344</u>	<u>28,231</u>

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 RM4.399 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 respectively as follows:-

	Quarter Ended 31/03/2013	Period Ended 31/03/2013
Net profit attributable to ordinary equity holders of the parent (RM'000)	4,399	4,399
Weighted average number of ordinary shares in issue ('000)	319,566	319,566
Basic earnings per share (sen)	<u>1.38</u>	<u>1.38</u>

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B10. EARNINGS PER SHARE

(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 31/03/2013	Period Ended 31/03/2013
Net profit attributable to ordinary equity holders of the parent (RM'000)	4,399	4,399
Weighted average number of ordinary shares in issue ('000)	319,566	319,566
Effect of conversion of warrants ('000)	135,165	135,165
Diluted earnings per share (sen)	0.97	0.97