
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 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 Berhad’s (formerly known as Grand-Flo Solution Berhad) (“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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
 FOR THE QUARTER ENDED 30 JUNE 2013**

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 2013 save for the following:-

(i) Details of treasury shares held

	Number of Treasury Shares
Balance as at 30 June 2013	10,000

(ii) Details of conversion of warrants

	Number of Warrants
Balance as at 31 March 2013	135,164,710
Converted during the quarter ended 30 June 2013	(5,229,300)
Balance as at 30 June 2013	129,935,410

(iii) Details of shares issued from conversion of warrants

	Number of Shares
Balance as at 31 March 2013	319,565,853
Issued during the quarter ended 30 June 2013	5,229,300
Balance as at 30 June 2013	324,795,153

Issuance of 5,229,300 new ordinary shares of RM0.12 each pursuant to the conversion of Warrants 2010/2015 into ordinary shares. The proceeds therefrom were utilized as working capital.

A7. DIVIDEND PAID

There was no dividend paid during the financial period ended 30 June 2013.

[The rest of this page is intentionally left blank]



**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 30/06/2013				Quarter Ended 30/06/2012			
	<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*	15,589	1,612	(1,773)	15,428	19,279	1,461	(4,188)	16,552
Labels	6,823	403	(1,463)	5,763	6,992	295	(1,270)	6,017
Total Revenue	22,412	2,015	(3,236)	21,191	26,271	1,756	(5,458)	22,569
	6 Months Period Ended 30/06/2013				6 Months Period Ended 30/06/2012			
	<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*	29,712	3,241	(3,933)	29,020	31,512	5,128	(6,958)	29,682
Labels	13,097	667	(2,681)	11,083	13,941	709	(2,451)	12,199
Total Revenue	42,809	3,908	(6,614)	40,103	45,453	5,837	(9,409)	41,881

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



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013

A8. OPERATING SEGMENT (CONT'D)**(b) Analysis of revenue by product categories**

Quarter Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
30.06.2013	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	15,428	5,763	-	21,191
Inter-segment sales	1,773	1,463	(3,236)	-
Total revenue	17,201	7,226	(3,236)	21,191
Results				
Interest income	93	-	-	93
Gain on disposal of quoted investment ^	9,266	-	-	9,266
Finance cost	76	88	-	164
Depreciation and amortisation	447	370	-	817
Foreign exchange gain or loss	76	1	-	77
Share of results of associates	76	40	-	116
Income tax expense	2,448	98	-	2,546
Segment profit	7,674	326	-	8,000

6 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
30.06.2013	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	29,020	11,083	-	40,103
Inter-segment sales	3,933	2,681	(6,614)	-
Total revenue	32,953	13,764	(6,614)	40,103
Results				
Interest income	113	-	-	113
Gain on deemed disposal of quoted investment	2,790	-	-	2,790
Gain on disposal of quoted investment ^	9,266	-	-	9,266
Finance cost	182	142	-	324
Depreciation and amortisation	876	672	-	1,548
Foreign exchange gain or loss	51	4	-	55
Share of results of associates	937	87	-	1,024
Income tax expense	2,429	201	-	2,630
Segment profit	11,639	766	-	12,405

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

^ Including in the other operating income is a gain on disposal of quoted investment in Simat Technologies Public Company Limited ("Simat") of RM9.3 million (refer note A11)



**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

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>
30.06.2012	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	16,551	6,018	-	22,569
Inter-segment sales	4,188	1,270	(5,458)	-
Total revenue	20,739	7,288	(5,458)	22,569
Results				
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
Segment profit	1,684	568	-	2,252

6 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
30.06.2012	RM '000	RM '000	RM '000	RM '000
Revenue				
Sales to external customers	29,682	12,199	-	41,881
Inter-segment sales	6,958	2,451	(9,409)	-
Total revenue	36,640	14,650	(9,409)	41,881
Results				
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
Segment profit	3,340	1,127	-	4,467

* 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

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

Grand-Flo had on 1 August 2013 announced that Grand-Flo Capital Sdn Bhd (formerly known as Grand-Flo RFID Sdn Bhd) ("GCSB"), a wholly-owned subsidiary of Grand-Flo, entered into a conditional share acquisition agreement with Loyang Ekuiti Sdn Bhd ("Loyang Ekuiti") for the proposed acquisition of 520,000 ordinary shares of RM1.00 each in Jalur Bina Sdn. Bhd. ("JBSB"), representing 52% of the issued and paid-up share capital of JBSB for a total cash purchase consideration of RM2,440,000 ("Proposed Acquisition").

Upon completion of the Proposed Acquisition, JBSB will become a 52%-owned subsidiary of Grand-Flo.

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 the disposals of Simat's shares during the current quarter under review. Grand-Flo's interest in Simat was reduced from 30.46% to 20.86% from the disposals and a gain of RM9.3 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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013

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 30/06/2013 RM'000	Period ended 30/06/2013 RM'000
Sales to a major shareholder	-	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.

[The rest of this page is intentionally left blank]

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

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 of RM21.2 million for the quarter under review has reduced by approximately 6.1% or RM1.4 million from RM22.6 million in the previous year's corresponding quarter. The drop in the Group's revenue was due to the global economic slowdown which impacted the demand of the Group's products in both the EDCCS and Labels segment.

The Group's profit before taxation ("PBT") rose 340.2% to RM10.5 million for the current quarter ended 30 June 2013 from RM2.4 million in the previous year's corresponding quarter and improved 134.9% or RM6.1 million as compared to RM4.5 million in the previous quarter ended 31 March 2013 which were mainly due to the gain on disposals of Simat's shares during the current quarter under review. Grand-Flo's interest in Simat was reduced from 30.46% to 20.86% from the disposals and a gain of RM9.3 million was resulted.

With the exclusion of the gain on disposal of RM9.3 million, the PBT for the current quarter would have dropped by 24.6% and 46.5% to RM1.3 million as compared to the previous quarter and the previous year's corresponding quarter respectively. The lower PBT of RM1.3 million was due to an overall lower sales and higher operating expenses for the current quarter under review.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The EDCCS division recorded a decrease in revenue of RM1.1 million or 6.8% as compared to the previous year's corresponding quarter. The current quarter PBT of RM10.1 million, an increase of 498.0% as compared to the previous year's corresponding quarter was due to a gain on disposal resulted from the disposals of Simat's shares during the current quarter.

With the exclusion of the gain on disposal of RM9.3 million, the PBT would have dropped by 25.9% or 49.4% as compared to the previous quarter and the previous year's corresponding quarter respectively. The drop in PBT was mainly due to the higher operating expenses for the current quarter.

ii) Labels Business Segment

For the current quarter under review, Labels division recorded a decrease in revenue of RM0.3 million or 4.2% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter of RM0.4 million, reduced 39.7% as compared to the previous year's corresponding quarter. The drop in PBT was due to lower profit margin of its labels sales during the quarter.



**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

B3. COMMENTARY ON PROSPECTS

The Board of Directors is confident that the Group will record good performance in this financial year despite continued global economic slowdown and the Group will continue to seek new business and investment opportunities that will generate positive returns.

B4. TAXATION

	Quarter ended 30/06/2013 RM'000	Period ended 30/06/2013 RM'000
Estimated income tax :		
Malaysia income tax	2,531	2,640
Foreign income tax	15	(10)
	<u>2,546</u>	<u>2,630</u>

- (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 AUGUST 2013

There were no corporate proposals announced but not completed as at 20 August 2013, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report except for the Proposed Acquisition of JBSB as disclosed in Note A10.

[The rest of this page is intentionally left blank]



**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013**

B6. BORROWINGS

The borrowings of the Company as at 30 June 2013 were as follows:-

	As at 30/06/2013 RM'000	As at 30/06/2012 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	4,259	6,429
Overdraft	215	361
Term loan	1,799	1,245
Hire purchase & Lease payables	897	930
	<u>7,170</u>	<u>8,965</u>
Secured Long-term (due after 12 months):		
Term loan	720	2,048
Hire purchase & Lease payables	3,587	944
	<u>4,307</u>	<u>2,992</u>
Total Borrowings	<u>11,477</u>	<u>11,957</u>

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

B7. MATERIAL LITIGATION

As at 20 August 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 recommended final tax exempt dividend of 10% or 1 sen per share for the financial year ended 31 December 2012 was approved by the shareholders during the Annual General Meeting held on 27 June 2013 and subsequently paid on 31 July 2013.

[The rest of this page is intentionally left blank]

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
 FOR THE QUARTER ENDED 30 JUNE 2013**

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 30/06/2013	Period Ended 30/06/2012
Total retained profits of the Group:		
-Realised	44,578	34,916
-Unrealised	2,350	265
	<u>46,928</u>	<u>35,181</u>
Total share of retained profits from the associates		
- Realised	7,087	8,771
	<u>7,087</u>	<u>8,771</u>
Less: Consolidation adjustments	(9,680)	(15,376)
Total Group retained profits as per consolidated accounts	<u>44,335</u>	<u>28,576</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 RM7.991 million and RM12.390 million for the current quarter and cumulative year to date respectively, 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 320,289,469 and 319,929,661 respectively as follows:-

	Quarter Ended 30/06/2013	Period Ended 30/06/2013
Net profit attributable to ordinary equity holders of the parent (RM'000)	7,991	12,390
Weighted average number of ordinary shares in issue ('000)	320,289	319,661
Basic earnings per share (sen)	<u>2.49</u>	<u>3.87</u>



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2013

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 30/06/2013	Period Ended 30/06/2013
Net profit attributable to ordinary equity holders of the parent (RM'000)	7,991	12,390
Weighted average number of ordinary shares in issue ('000)	320,289	319,661
Effect of conversion of warrants ('000)	134,441	134,801
Diluted earnings per share (sen)	<u>1.76</u>	<u>2.72</u>