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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
 FOR THE QUARTER ENDED 31 MARCH 2014**

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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 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 2013.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013.

**A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The audit report of the preceding annual financial statements for the FYE 31 December 2013 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.

**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 2014 save for the following:-

**Details of treasury shares held**

	<b>Number of Treasury Shares</b>
Balance as at 31 December 2013	289,000
Repurchased during the quarter ended 31 March 2014	50,000
Balance as at 31 March 2014	339,000

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**A7. DIVIDEND PAID**

There was no dividend paid during the financial period ended 31 March 2014.

**A8. OPERATING SEGMENT**

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

	Quarter Ended 31/3/2014				Quarter Ended 31/3/2013			
	Malaysia	Others	Eliminations	Group	Malaysia	Others	Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	10,384	1,409	(2,701)	9,091	14,123	1,629	(2,160)	13,592
Labels	6,372	424	(1,686)	5,110	6,274	264	(1,218)	5,320
Property	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>16,756</b>	<b>1,833</b>	<b>(4,387)</b>	<b>14,201</b>	<b>20,397</b>	<b>1,893</b>	<b>(3,378)</b>	<b>18,912</b>

  

	3 Months Period Ended 31/3/2014				3 Months Period Ended 31/3/2013			
	Malaysia	Others	Eliminations	Group	Malaysia	Others	Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	10,384	1,409	(2,701)	9,091	14,123	1,629	(2,160)	13,592
Labels	6,372	424	(1,686)	5,110	6,274	264	(1,218)	5,320
Property	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>16,756</b>	<b>1,833</b>	<b>(4,387)</b>	<b>14,201</b>	<b>20,397</b>	<b>1,893</b>	<b>(3,378)</b>	<b>18,912</b>

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

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

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

<b>Quarter Ended</b>	<u>EDCCS</u>	<u>Labels</u>	<u>Property</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2014</b>	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>					
Sales to external customers	9,091	5,110	-	-	14,201
Inter-segment sales	2,701	1,686	-	(4,387)	-
<b>Total revenue</b>	<b>11,792</b>	<b>6,796</b>	<b>-</b>	<b>(4,387)</b>	<b>14,201</b>
<b>Results</b>					
Interest income	73	-	-	-	73
Gain on disposal of quoted investment (refer A11)	2,465	-	-	-	2,465
Gain on conversion of warrants (refer A11)	511	-	-	-	511
Finance cost	81	76	-	-	157
Depreciation and amortisation	116	431	-	-	547
Foreign exchange gain or loss	8	(2)	-	-	6
Share of results of associates	262	66	-	-	328
Income tax expense	16	77	-	-	93
<b>Segment profit</b>	<b>3,919</b>	<b>268</b>	<b>(17)</b>	<b>(836)</b>	<b>3,334</b>

<b>3 Months Period Ended</b>	<u>EDCCS</u>	<u>Labels</u>	<u>Property</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.3.2014</b>	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>					
Sales to external customers	9,091	5,110	-	-	14,201
Inter-segment sales	2,701	1,686	-	(4,387)	-
<b>Total revenue</b>	<b>11,792</b>	<b>6,796</b>	<b>-</b>	<b>(4,387)</b>	<b>14,201</b>
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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>31.03.2013</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	13,592	5,320	-	18,912
Inter-segment sales	2,160	1,218	(3,378)	-
<b>Total revenue</b>	<b>15,752</b>	<b>6,538</b>	<b>(3,378)</b>	<b>18,912</b>
<b>Results</b>				
Interest income	19	-	-	19
Gain on deemed disposal of quoted investment <sup>^</sup>	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
<b>Segment profit</b>	<b>4,446</b>	<b>440</b>	<b>(481)</b>	<b>4,405</b>

<b>Period Ended</b>	<u>EDCCS*</u>	<u>Labels</u>	<u>Eliminations</u>	<u>Total</u>
<b>31.03.2013</b>	RM '000	RM '000	RM '000	RM '000
<b>Revenue</b>				
Sales to external customers	13,592	5,320	-	18,912
Inter-segment sales	2,160	1,218	(3,378)	-
<b>Total revenue</b>	<b>15,752</b>	<b>6,538</b>	<b>(3,378)</b>	<b>18,912</b>
<b>Results</b>				
Interest income	19	-	-	19
Gain on deemed disposal of quoted investment <sup>^</sup>	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
<b>Segment profit</b>	<b>4,446</b>	<b>440</b>	<b>(481)</b>	<b>4,405</b>

<sup>^</sup> Included in the other operating income is a non-cash gain on deemed disposal of quoted investment in Simat Technologies Public Company Limited ("Simat") of RM2.8 million from Simat's private placement which had resulted in Grand-Flo's interest in Simat to be diluted from 33.17% to 30.46%.

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

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 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 2013.

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**

There were no other material events subsequent to the end of the current quarter ended 31 March 2014 except for the following :-

- (i) proposed acquisition by Grand-Flo of an aggregate 125,001 ordinary shares of RM1.00 each in Innoceria Sdn Bhd ("ISB"), representing 50.0004% of the total issued and paid-up share capital of ISB, for a total consideration of RM15.0 million to be satisfied by a combination of cash and issuance and allotment of new ordinary shares of RM0.10 each in Grand-Flo ("proposed acquisition"); and
- (ii) proposed diversification of the existing core businesses of Grand-Flo and its subsidiaries to include property development ("proposed diversification").

**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 following :-

- (i) Disposal of 5.9 million of Simat's shares resulted of the Group's interest in Simat reduced from 19.98% to 17.85% from the disposals and a gain of RM2.5 million was resulted.
- (ii) Grand-Flo exercised 13,781,250 Simat warrants into 20,425,190 new Simat ordinary shares of Baht 1.00 each. The Group's interest in Simat increased from 17.85% to 23.14% after the exercise and a gain of RM0.5 million was resulted from the conversion of Simat warrants to Simat shares.

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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.

**A15. STATUS OF UTILISATION OF PROCEEDS**

- (a) Grand-Flo had on 9 April 2013, 10 April 2013, 2 May 2013 and 3 May 2013 disposed of 9.6% of share investment (19,100,000 ordinary shares of THB 1.00 each) in Simat for a total cash consideration of RM15,811,744. The status of utilisation of the sale proceeds is as follows:

<b>Utilisation up to 31.3.2014</b>	<b>Projected proceeds utilisation RM'000</b>	<b>Actual proceeds proportionate to projected utilization RM'000</b>	<b>Actual utilisation RM'000</b>	<b>Balance RM'000</b>
Working Capital	5,940	5,892	5,158	734
Investment	10,000	9,920	5,328	4,592
Total	15,940	15,812	10,486	5,326

- (b) Grand-Flo had on 19 March 2014 disposed of 2.1% of share investment (5,900,000 ordinary shares of THB 1.00 each) in Simat for a total cash consideration of RM3,737,681. The status of utilisation of the sale proceeds is as follows:

<b>Utilisation up to 31.3.2014</b>	<b>Projected proceeds utilisation RM'000</b>	<b>Actual proceeds proportionate to projected utilization RM'000</b>	<b>Actual utilisation RM'000</b>	<b>Balance RM'000</b>
Working Capital	3,856	3,738	2,051	1,687
Total	3,856	3,738	2,051	1,687

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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 of RM14.2 million for the quarter under review reduced approximately 24.9% or RM4.7 million from RM18.9 million in the previous year's corresponding quarter mainly due to lower sales contribution from the EDCCS division for the quarter under review.

The Group's profit before taxation ("PBT") of RM3.4 million were reduced by 23.7% or RM1.1 million for the current quarter ended 31 March 2014 as compared to the previous year's corresponding quarter mainly due to lower EDCCS sales and lower share of associates' results for the current quarter.

With the exclusion of the exceptional items of the gain on disposal of Simat shares and the gain from conversion of Simat warrants for the current quarter and the exclusion of gain on deemed disposal of Simat shares for the corresponding quarter in the previous year, the PBT would have been RM0.5 million and RM1.7 million respectively. The decrease in PBT of 73.4% was mainly caused by lower EDCCS sales hence lower profit contribution to the Group and the drop in the share of associates' results by RM0.6 million representing 63.9% lower than the previous year's corresponding quarter.

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

**i) EDCCS Segment**

The EDCCS division recorded a decrease in revenue of RM4.5 million representing 33.1% lower as compared to the previous year's corresponding quarter. This had resulted in lower PBT for the current quarter of RM3.1 million, reduced by 21.5% compared to the previous year's corresponding quarter.

The current quarter's PBT increased by 46.2% as compared to the previous quarter mainly due to the gain on disposal of Simat shares and the gain on conversion of Simat warrants.

With the exclusion of the gain on disposal and warrant conversion of RM3.0 million, the PBT would have dropped by 94.9% or 89.4% as compared to the previous quarter and the previous year's corresponding quarter respectively. The drop in PBT was due to lower sales contribution for the quarter under review.

**ii) Labels Business Segment**

For the current quarter under review, Labels division recorded a marginal drop in revenue of 4.0% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter was RM0.3 million, reduced by 36.3% as compared to the previous year's corresponding quarter. The drop in PBT was due to lower sales and profit margin for the current quarter under review.

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**B3. COMMENTARY ON PROSPECTS**

Based on the projects secured and in the pipelines and with the addition of contribution from its property division, the Board of Directors believes that the Group will maintain its good performance record. Going forward, the Group will continue to seek new business and investment opportunities that will generate positive returns.

**B4. TAXATION**

	<b>Quarter ended 31/3/2014 RM'000</b>	<b>Period ended 31/3/2014 RM'000</b>
Estimated income tax :		
Malaysia income tax	72	72
Foreign income tax	21	21
	93	93

- (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 22 MAY 2014**

The Board of Directors and shareholders of Grand-Flo had on 7 May 2013 and 27 Jun 2013, respectively, approved and announced to the Bursa Securities that Grand-Flo proposed to undertake the following:-

- (a) proposed disposal of up to 20.86% equity interest in Simat at a disposal price to be determined later;
- (b) proposed disposal of up to 13,781,250 Simat Warrants at a disposal price to be determined later;
- (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; and
- (d) proposed disposal of new Simat shares consequent to the Proposed Exercise of Simat Warrants at a disposal price to be determined later.



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**B5. STATUS OF CORPORATE PROPOSALS AS AT 22 MAY 2014 (CONT'D)**

During the current quarter, the Company had:-

- (i) disposed of 5.9 million Simat shares representing 2.13% equity interest in Simat pursuant to the proposal (a) above at THB6.40 per Simat Share for a total cash consideration of THB37,760,000 (equivalent to RM3,855,658) ; and
- (ii) exercised all Simat warrants into new Simat shares pursuant to the proposal (c) above.

On 24 April 2014, the Board announced to the Bursa:-

- (iii) proposed acquisition by Grand-Flo of an aggregate 125,001 ordinary shares of RM1.00 each in Innoceria Sdn Bhd ("ISB"), representing 50.0004% of the total issued and paid-up share capital of ISB, for a total consideration of RM15.0 million to be satisfied by a combination of cash and issuance and allotment of new ordinary shares of RM0.10 each in Grand-Flo ("proposed acquisition"); and
- (iv) proposed diversification of the existing core businesses of Grand-Flo and its subsidiaries to include property development ("proposed diversification").

Save for the above, there were no other corporate proposals announced but not completed as at 22 May 2014, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

**B6. BORROWINGS**

The borrowings of the Company as at 31 March 2014 were as follows:-

	<b>As at 31/3/2014 RM'000</b>	<b>As at 31/3/2013 RM'000</b>
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	7,059	8,199
Overdraft	553	453
Term loan	4,295	972
Hire purchase & Lease payables	1,398	777
	13,305	10,401
Secured Long-term (due after 12 months):		
Term loan	5,556	1,721
Hire purchase & Lease payables	2,114	1,154
	7,670	2,875
Total Borrowings	20,975	13,276

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

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**B7. MATERIAL LITIGATION**

Grand-Flo had on 11 November 2013 announced that Simat had on 8 November 2013 filed Civil Suit No. 4572/2556 in the Civil Court of Thailand against Cat Telecom Public Company Limited (“CAT”) to claim damages amounting approximately RM66 million (Baht 663.64 million) from CAT for its failure to accept the equipment installed, services performed and delivered in accordance with the operating lease of optical fiber network system contracts entered into with CAT for the Nakornratchasima and Chiangmai provinces dated 10 June 2011 and 13 June 2011, respectively.

Save for the above, the Directors are not aware of any material litigations or claims against the Group and Company as at 22 May 2014, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

**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 2013 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.

**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 31/3/2014</b>	<b>Period ended 31/03/2013</b>
Total retained profits of the Group:		
-Realised	47,999	33,314
-Unrealised	1,710	2,348
	<u>49,709</u>	<u>35,662</u>
Total share of retained profits from the associates		
- Realised	5,519	8,596
	<u>5,519</u>	<u>8,596</u>
Less: Consolidation adjustments	(10,225)	(7,914)
Total Group retained profits as per consolidated accounts	<u>45,003</u>	<u>36,344</u>

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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 RM3.341 million for the current quarter and cumulative year to date, 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 325,785,153 as follows:-

	<b>Quarter Ended 31/3/2014</b>	<b>Period Ended 31/3/2014</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	3,341	3,341
Weighted average number of ordinary shares in issue ('000)	325,785	325,785
Basic earnings per share (sen)	1.03	1.03

**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.

	<b>Quarter Ended 31/3/2014</b>	<b>Period Ended 31/3/2014</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	3,341	3,341
Weighted average number of ordinary shares in issue ('000)	325,785	325,785
Effect of conversion of warrants ('000)	129,935	129,935
Diluted earnings per share (sen)	0.73	0.73