
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2014**

PART A – EXPLANATORY NOTES

A1. BASIS OF PREPARATION

The interim financial report is unaudited. In the prior periods it was prepared in accordance with the requirements of Malaysia Financial Reporting Standards (“MFRS”) 134: Interim Financial issued by the 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”). As a result of acquisition of subsidiaries with principal business activities of property development during the period, which meet the Transitioning Entities (“TE”) criteria, the Group has opted to apply FRS as its reporting framework for the financial year ended 31 December 2014. Accordingly, this interim financial report is prepared in accordance with the requirements of FRS 134: Interim Financial issued by the MASB and paragraph 9.22 (Appendix 9B part A) of the Main Market listing requirement of the Bursa Securities.

The interim financial statements should be read in conjunction with Grand-Flo Berhad’s (“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 December 2014 save for the following:-

(i) Details of treasury shares held

	Number of Treasury Shares
Balance as at 30 September 2014	577,700
Repurchased during the quarter ended 31 December 2014	959,100
Balance as at 31 December 2014	1,536,800

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A6. DEBT AND EQUITY SECURITIES (CONT'D)

(ii) Details of conversion of warrants

	Number of Warrants
Balance as at 30 September 2014	120,818,710
Converted during the quarter ended 30 December 2014	(3,768,000)
Balance as at 31 December 2014	<u>117,050,710</u>

(iii) Details of shares issued during the quarter ended 31 December 2014

	Number of Shares
Balance as at 30 September 2014	363,323,618
Issued from conversion of warrants	3,768,000
Balance as at 31 December 2014	<u>367,091,618</u>

A7. DIVIDEND PAID

Final tax exempt dividend of 10% or 1 sen per share for the financial year ended 31 December 2013 was paid on 31 July 2014.

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 31/12/2014				Quarter Ended 31/12/2013			
	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*	18,397	1,840	(5,497)	14,740	33,028	3,800	(12,417)	24,411
Labels	6,406	582	(1,765)	5,223	6,162	522	(1,574)	5,110
Property	15,600	-	-	15,600	-	-	-	-
Total Revenue	<u>40,403</u>	<u>2,422</u>	<u>(7,262)</u>	<u>35,563</u>	<u>39,190</u>	<u>4,322</u>	<u>(13,991)</u>	<u>29,521</u>

	12 Months Period Ended 31/12/2014				12 Months Period Ended 31/12/2013			
	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*	54,175	6,467	(14,430)	46,212	77,253	8,917	(17,932)	68,238
Labels	25,715	1,893	(7,019)	20,588	25,391	1,682	(5,708)	21,365
Property	18,838	-	-	18,838	-	-	-	-
Total Revenue	<u>98,728</u>	<u>8,360</u>	<u>(21,449)</u>	<u>85,638</u>	<u>102,644</u>	<u>10,599</u>	<u>(23,640)</u>	<u>89,603</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	<u>EDCCS*</u>	<u>Labels</u>	<u>Property</u>	<u>Eliminations</u>	<u>Total</u>
31.12.2014	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	14,740	5,223	15,600	-	35,563
Inter-segment sales	5,497	1,765	-	(7,262)	-
Total revenue	20,237	6,988	15,600	(7,262)	35,563
Results					
Interest income	24	-	12	-	36
Finance cost	47	95	-	-	142
Depreciation and amortisation	112	457	-	-	569
(Gain)/loss on foreign exchange	157	(4)	-	-	153
Share of loss/(profit) of associates	435	(91)	-	-	344
Income tax expense	176	270	768	-	1,214
Segment profit after taxation	(229)	(117)	2,264	-	1,918

12 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Property</u>	<u>Elimination *</u>	<u>Total</u>
31.12.2014	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	46,211	20,589	18,838	-	85,638
Inter-segment sales	14,430	7,019	-	(21,449)	-
Total revenue	60,641	27,608	18,838	(21,449)	85,638
Results					
Interest income	243	-	16	-	259
Net gain on disposal/deemed disposal of quoted investment	4,589	-	-	-	4,589
Finance cost	287	326	-	-	613
Depreciation and amortisation	1,879	1,688	-	-	3,567
(Gain)/loss on foreign exchange	103	(6)	-	-	97
Share of loss/(profit) of associates	1,146	(378)	-	-	768
Income tax expense	253	439	934	-	1,626
Segment profit after taxation	8,066	550	2,807	(3,836)	7,587

* Including in the elimination is a dividend from a subsidiary of RM3.8 million

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A8. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories (cont'd)

Quarter Ended 31.12.2013	<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	24,411	5,110	-	29,521
Inter-segment sales	12,417	1,574	(13,991)	-
Total revenue	36,828	6,684	(13,991)	29,521
Results				
Interest income	67	-	-	67
Loss on deemed disposal of quoted investment #	(265)	-	-	(265)
Finance cost	54	108	-	162
Depreciation and amortisation	425	(1)	-	424
Foreign exchange gain or loss	(84)	-	-	(84)
Share of results of associates	10	34	-	44
Income tax expense	651	171	-	822
Segment profit	1,377	40	-	1,417

12 Months Period Ended 31.12.2013	<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	68,238	21,365	-	89,603
Inter-segment sales	17,932	5,708	(23,640)	-
Total revenue	86,170	27,073	(23,640)	89,603
Results				
Interest income	282	-	-	282
Loss on deemed disposal of quoted investment #	3,604	-	-	3,604
Gain on disposal of quoted investment ^	(13,773)	-	-	(13,773)
Finance cost	296	332	-	628
Depreciation and amortisation	1,726	304	-	2,030
Foreign exchange gain or loss	99	10	-	109
Share of results of associates	997	156	-	1,153
Income tax expense	676	447	-	1,123
Segment profit	11,956	1,010	-	12,966

Included in the other operating income is a (loss) for the quarter/net gain for the year-to-date on deemed disposal of investment in Simat Technologies Public Company Limited ("Simat").

^ Included in the other operating income is a gain on disposal of quoted investment in Simat of RM9.3 million.

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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 2014.

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 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 financial period ended 31 December 2014 save for the following:-

- (i) On 28 August 2014, 27,737,017 ordinary shares of Baht 1.00 each were issued from conversion of warrants to shares by other Simat warrant holders and a private placement of 10,000,000 new ordinary shares of Baht 1.00 each on 2 September 2014 at Baht 5.00 each resulted in the dilution of Grand-Flo's shareholdings in Simat from 23.07% to 20.72%. This deemed disposal yielded a gain of RM0.2 million.
- (ii) The Company had on 29 September 2014 disposed of 3.0 million Simat shares representing 0.90% equity interest in Simat at Baht 5.00 per share for a total cash consideration of Baht 15,000,000 (equivalent to RM1,484,426) and yielded a gain of RM1.0 million. This disposal resulted Grand-Flo's interest in Simat reduced to 19.91%.
- (iii) The proposed acquisition of 50.0004% of the issued and paid-up share capital in Innoceria Sdn Bhd ("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 was completed on 21 August 2014 and its results thereafter were consolidated into the Group accordingly.

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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 Baht 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:

Utilisation up to 31.12.2014	Projected proceeds utilisation RM'000	Actual proceeds proportionate to projected utilization RM'000	Actual utilisation RM'000	Balance RM'000
Working Capital	5,940	5,892	5,892	-
Investment	10,000	9,920	9,920	-
Total	15,940	15,812	15,812	-

- (b) As disclosed in A11(ii), Grand-Flo had on 29 September 2014 disposed of 0.9% of share investment (3,000,000 ordinary shares of Baht 5.00 each) in Simat for a total cash consideration of RM1,484,426. The sale proceeds were utilized for working capital purpose.

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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 increased approximately 20.5% from RM29.5 million in the previous year's corresponding quarter to RM35.6 million for the quarter under review. The increase was mainly contributed by the new property division with a turnover of RM16.0 million for the quarter under review.

The Group's Profit Before Taxation ("PBT") of RM3.1 million for the current quarter ended 31 December 2014 increased 39.9% or RM0.9 million as compared to the previous year's corresponding quarter. In tandem with the substantial revenue contribution from the Group's property division, its PBT for the current quarter was RM3.0 million

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The EDCCS division recorded a decrease in revenue of RM9.7 million representing 39.6% lower as compared to the previous year's corresponding quarter was due to lower Malaysia EDCCS sales for the current quarter under review.

The PBT of the segment for the current quarter was RM0.1 million, reduced by 102.6% as compared to the previous year's corresponding quarter. The drop was mainly due to lower sales hence lower contribution for the current quarter under review.

With the exclusion of the gain on disposal/deemed disposal of Simat shares for the immediate preceding quarter ended 30 September 2014, the PBT would have been RM0.2 million and lower by 54.7% as compared to the current quarter of RM0.1 million.

ii) Labels Business Segment

For the current quarter under review, Labels division recorded a marginal increase in revenue of 2.2% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter was RM0.1 million, reduced by 27.5% as compared to the previous year's corresponding quarter. The drop in PBT was due to lower margin sales for the current quarter under review.

iii) Property Development Segment

Property development division has posted a revenue of RM16.0 million for the quarter ended 31 December 2014 which contributed by the Vortex project of ISB and a PBT of RM3.0 million.

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B3. COMMENTARY ON PROSPECTS

Barring any unexpected turn of events, the Board of Directors believes that the Group's core business of EDCCS, Labels and property development will perform satisfactorily.

B4. TAXATION

	Quarter ended 31/12/2014 RM'000	Period ended 31/12/2014 RM'000
Estimated income tax :		
Malaysia income tax	1,161	1,487
Foreign income tax	53	139
	1,214	1,626

- (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 a subsidiary of the Group as it is accorded the Multimedia Super Corridor ("MSC") Status and was granted Pioneer Status which exempts 100% of its 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 25 FEBRUARY 2015

- (1) 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 25 FEBRUARY 2015 (CONT'D)

In respect of the above proposals, the Company had:-

- (i) on 19 March 2014 disposed of 5.9 million Simat shares representing 2.13% equity interest in Simat pursuant to the proposal (a) above at Baht 6.40 per Simat Share for a total cash consideration of Baht 37,760,000 (equivalent to RM3,855,658); and
- (ii) on 31 March 2014 exercised all Simat warrants into new Simat shares pursuant to the proposal (c) above.

On 28 August 2014, the Company has announced to the Bursa Securities that the approval from the shareholders of Grand-Flo in relation to the above proposals has expired on 28 August 2014, thus making the completion of these proposals.

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

- (i) proposed acquisition by Grand-Flo of an aggregate 125,001 ordinary shares of RM1.00 each in 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”).

Both proposed acquisition and proposed diversification were approved by Company’s shareholders on 12 August 2014. As disclosed in Note A11, the proposed acquisition of 50.0004% of ISB was completed in accordance with the terms of the Share Acquisition Agreement on 21 August 2014.

- (3) On 28 August 2014, 27,737,017 ordinary shares of Baht 1.00 each of Simat were issued from conversion of warrants to shares by other Simat warrant holders and a private placement of 10,000,000 new ordinary shares of Baht 1.00 each of Simat to an investor at Baht 5.00 per share resulted in the dilution of Grand-Flo’s shareholding in Simat from 23.07% to 20.72%.
- (4) On 29 September 2014 disposed of 3.0 million Simat shares representing 0.90% equity interest in at Baht 5.00 per Simat share for a total cash consideration of Baht 15,000,000 (equivalent to RM1,484,426).

There were no other corporate proposals announced but not completed as at 25 February 2015, 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 December 2014 were as follows:-

	As at 31/12/2014 RM'000	As at 31/12/2013 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	5,929	4,818
Overdraft	461	278
Term loan	4,116	3,207
Hire purchase & Lease payables	1,256	1,406
	<u>11,762</u>	<u>9,709</u>
Secured Long-term (due after 12 months):		
Term loan	14,245	6,868
Hire purchase & Lease payables	1,478	2,297
	<u>15,723</u>	<u>9,165</u>
Total Borrowings	<u>27,485</u>	<u>18,874</u>

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

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 665.62 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.

On 22 February 2013, Simat had terminated the contract and proceed the litigation under civil court. The civil court however considered the contract as the administrative contract therefore the lawsuit should be under the administrative court. Simat withdrew the case from the civil court and filed a lawsuit to the administrative court on 6 February 2014.

On April 2, 2014, Simat was sued by a supplier, for a compensation of Baht 8.56 million as the Company's breach of a purchase agreement. The case is currently under the consideration of the commercial court. However, the management of Simat believes that Simat will not be obliged to pay such compensation over than booked amount.

Save for the above, the Directors are not aware of any material litigations or claims against the Group and Company as 25 February 2015, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

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B8. PROPOSED DIVIDEND PAYABLE

No dividend was proposed or declared for the current financial period ended 31 December 2014.

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 31/12/2014	Period ended 31/12/2013
Total retained profits of the Group:		
-Realised	49,728	45,445
-Unrealised	2,185	1,768
	<u>51,913</u>	<u>47,213</u>
Total share of retained profits from the associates		
- Realised	7,064	5,195
Less: Consolidation adjustments	(14,482)	(10,746)
Total Group retained profits as per consolidated accounts	<u>44,495</u>	<u>41,662</u>

B10. EARNINGS PER SHARE

(a) **Basic earnings per share**

The basic earnings per share is calculated based on Group's net profit attributable to the owners of the Company of approximately RM0.777 million for the current quarter and the RM6.159 million for the 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 365,615,597 and 341,609,100 respectively as follows:-

	Quarter Ended 31/12/2014	Period Ended 31/12/2014
Net profit attributable to ordinary equity holders of the parent (RM'000)	777	6,159
Weighted average number of ordinary shares in issue ('000)	365,616	341,609
Basic earnings per share (sen)	<u>0.21</u>	<u>1.80</u>

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B10. EARNINGS PER SHARE (CONT'D)

(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 31/12/2014	Period Ended 31/12/2014
Net profit attributable to ordinary equity holders of the parent (RM'000)	777	6,159
Weighted average number of ordinary shares in issue ('000)	365,616	341,609
Effect of conversion of warrants ('000)	118,527	124,000
Diluted earnings per share (sen)	0.16	1.32