
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2015**

PART A – EXPLANATORY NOTES

A1. BASIS OF PREPARATION

The interim financial report is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standards (“FRS”) 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 (“Grand-Flo” or the “Company”) audited consolidated financial statements for the financial year ended (“FYE”) 31 December 2014.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2014 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 30 June 2015 save for the following:-

(i) Details of treasury shares held

	Number of Treasury Shares
Balance as at 31 March 2015	2,710,100
Repurchased during the quarter ended 30 June 2015	434,000
Balance as at 30 June 2015	3,144,100

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A6. DEBT AND EQUITY SECURITIES (CONT'D)

(ii) Details of conversion of warrants

	Number of Warrants
Balance as at 31 March 2015	83,026,750
Converted during the quarter ended 30 June 2015	(82,000,136)
Unexercised Warrant 2010/2015 which expired on 21 April 2015	(1,026,614)
Balance as at 30 June 2015	-

(iii) Details of shares issued during the quarter ended 30 June 2015

	Number of Shares
Balance as at 31 March 2015	367,091,618
Issued from conversion of warrants	116,024,093
Balance as at 30 June 2015	483,115,711

A7. DIVIDEND PAID

Final single-tier dividend of 10% or 1 sen per share for the financial year ended 31 December 2014 was paid on 22 June 2015.

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 30/6/2015				Quarter Ended 30/6/2014			
	<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*	8,119	1,970	-	10,089	10,013	1,382	-	11,395
Labels	5,006	679	-	5,685	4,736	426	-	5,162
Properties	4,476	-	-	4,476	-	-	-	-
Total Revenue	17,601	2,649	-	20,250	14,749	1,808	-	16,557

	6 Months Period Ended 30/6/2015				6 Months Period Ended 30/6/2014			
	<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*	23,721	3,026	-	26,747	17,696	2,791	-	20,487
Labels	9,720	1,271	-	10,991	9,421	850	-	10,271
Properties	9,733	-	-	9,733	-	-	-	-
Total Revenue	43,174	4,297	-	47,471	27,117	3,641	-	30,758

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A8. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories

Quarter Ended 30.6.2015	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Properties</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
Revenue					
Sales to external customers	10,089	5,685	4,476	-	20,250
Inter-segment sales	4	192	-	(196)	-
Total revenue	10,093	5,877	4,476	(196)	20,250
Results					
Interest income	95	1	6	-	102
Finance cost	84	67	-	-	151
Depreciation and amortisation	169	421	-	-	590
Share of results of equity-accounted associates	445	(164)	-	-	281
Net gain on deemed disposal of quoted investment	188	-	-	-	188
(Gain)/loss on foreign exchange	(11)	-	-	-	(11)
Income tax expense	170	(87)	(443)	-	(360)
Segment profit after taxation	(113)	393	1,324	-	1,604

6 Months Period Ended 30.6.2015	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Properties</u> RM '000	<u>Elimination</u> RM '000	<u>Total</u> RM '000
Revenue					
Sales to external customers	26,748	10,990	9,733	-	47,471
Inter-segment sales	7	386	-	(393)	-
Total revenue	26,755	11,376	9,733	(393)	47,471
Results					
Interest income	124	-	11	-	135
Finance cost	179	126	-	-	305
Depreciation and amortisation	272	839	-	-	1,111
Share of results of equity-accounted associates	940	(280)	-	-	660
Net gain on disposal/deemed disposal of quoted investment #	1,861	-	-	-	1,861
(Gain)/loss on foreign exchange	(21)	(4)	-	-	(25)
Income tax expense	10	(174)	(844)	-	(1,008)
Segment profit after taxation	3,998	719	2,527	-	7,244

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 RM0.7 million from Simat's private placement and a gain on disposal of in Simat of RM1.0 million as disclosed in Note A11.

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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>Property</u>	<u>Eliminations</u>	<u>Total</u>
30.6.2014	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	11,395	5,162	-	-	16,557
Inter-segment sales	1,969	1,692	-	(3,661)	-
Total revenue	13,364	6,854	-	(3,661)	16,557
Results					
Interest income	92	-	-	-	92
Loss on deemed disposal of quoted investment	(106)	-	-	-	(106)
Finance cost	85	86	-	-	171
Depreciation and amortisation	138	413	-	-	551
Foreign exchange gain or loss	29	(1)	-	-	28
Share of results of associates	(309)	109	-	-	(200)
Income tax expense	27	64	-	-	91
Segment profit	10	188	(24)	-	174

6 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Property</u>	<u>Eliminations</u>	<u>Total</u>
30.6.2014	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	20,487	10,271	-	-	30,758
Inter-segment sales	4,670	3,379	-	(8,049)	-
Total revenue	25,157	13,650	-	(8,049)	30,758
Results					
Interest income	165	-	-	-	165
Net gain on disposal/deemed disposal of quoted investment	3,391	-	-	-	3,391
Finance cost	166	162	-	-	328
Depreciation and amortisation	280	808	-	-	1,088
Foreign exchange gain or loss	37	(3)	-	-	34
Share of results of associates	(579)	175	-	-	(404)
Income tax expense	43	141	-	-	184
Segment profit	3,916	457	(41)	(836)	3,496

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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 ended 30 June 2015.

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 2014.

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 30 June 2015 save for the following:-

- (i) On 9 March 2015, Simat undertook a private placement of 7.0 million Simat shares resulted a dilution of Grand-Flo's interest in Simat from 19.91% to 19.54% and a gain on deemed disposal of RM0.5 million.
- (ii) The Company had on 27 March 2015 disposed of 2.0 million Simat shares representing 0.53% equity interest in Simat at Baht 5.85 per share for a total cash consideration of Baht 11,670,604 (equivalent to RM1,308,108). This disposal reduced the Group's interest in Simat from 19.54% to 19.01% and a gain of RM1.0 million was resulted.
- (iii) On 2 June 2015, Simat undertook a private placement of 2.7 million Simat shares and exercised of 3.3 million Employee Stock Option Program ("ESOP") - warrant resulted a dilution of Grand-Flo's interest in Simat from 19.01% to 18.72% and a gain on deemed disposal of RM0.2 million.

A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets of the Group during the quarter under review.

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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 30/06/2015 RM'000	Period ended 30/06/2015 RM'000
Management fees to a related party	46	46

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.

A15. STATUS OF UTILISATION OF PROCEEDS

As disclosed in Note A11, Grand-Flo had on 27 March 2015 disposed of 2.7% of share investment (2,000,000 ordinary shares of Baht 1.00 each) in Simat for a total cash consideration of RM1,307,108 (BAHT11,670,604). The sale proceeds have been utilized as 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 22.3% from RM16.6 million in the previous year's corresponding quarter to RM20.2 million for the quarter under review. The increase was contributed by Label's 10.1% sales growth and the new property development division with a turnover of RM4.5 million for the quarter under review.

In tandem with the increase in revenue for the quarter, the Group's Profit Before Taxation ("PBT") of RM2.0 million for the current quarter ended 30 June 2015 increased 639.9% as compared to the previous year's corresponding quarter of RM0.3 million. The main contributor of the PBT was from the Group's property development division.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The EDCCS division recorded a decrease in revenue of 11.5% or RM1.3 million quarter for the current quarter ended 30 June 2015 as compared with the previous year's corresponding. The current quarter Loss Before Taxation ("LBT") of RM0.3 million decreased by RM4.6 million and RM0.3 million as compared to the previous quarter and the previous year's corresponding quarter respectively, mainly due to softer market in the current quarter under review and the share of loss of RM0.4 million from associated companies.

With the exclusion of the gain on disposal/deemed disposal of Simat shares, the LBT would have been RM3.2 million and RM0.6 million as compared to the previous quarter and previous year's corresponding quarter respectively.

ii) Labels Business Segment

For the current quarter under review, Labels division's revenue increased by RM0.5 million or 10.1% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter was RM0.5 million, increased by 90.9% as compared to the previous year's corresponding quarter.

iii) Property Development Segment

Property development division's revenue for the quarter ended 30 June 2015 was mainly contributed by the Vortex project of ISB with a PBT of RM1.8 million.

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B3. COMMENTARY ON PROSPECTS

The Group maintains its positive outlook for the financial year ending 31 December 2015 despite the challenging economic conditions locally and regionally. Barring any unexpected circumstances, the Board of Directors believes that the Group will perform satisfactorily.

B4. TAXATION

	Quarter ended 30/06/2015	Period ended 30/06/2015
	RM'000	
	RM'000	
Estimated income tax :		
Malaysia income tax	303	979
Foreign income tax	57	29
	360	1,008

- (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 AUGUST 2015

There were no corporate proposals announced but not completed as at 25 August 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 30 June 2015 were as follows:-

	As at 30/6/2015 RM'000	As at 30/6/2014 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,511	5,030
Overdraft	214	484
Term loan	3,624	4,887
Hire purchase & Lease payables	1,557	1,392
	<u>11,906</u>	<u>11,793</u>
Secured Long-term (due after 12 months):		
Term loan	17,512	4,456
Hire purchase & Lease payables	1,019	1,755
	<u>18,531</u>	<u>6,211</u>
Total Borrowings	<u><u>30,437</u></u>	<u><u>18,004</u></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 August 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

The Board of Directors has proposed a final single-tier dividend of 10% or 1 sen per share for the financial year ended 31 December 2014 which was approved by the shareholders during the Annual General Meeting held on 25 May 2015 and subsequently paid on 22 June 2015.

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 30/06/2015	Period ended 30/06/2014
Total retained profits of the Group:		
-Realised	51,279	48,531
-Unrealised	1,709	1,710
	<u>52,988</u>	<u>50,241</u>
Total share of retained profits from the associates		
- Realised	5,794	5,946
Less: Consolidation adjustments	(12,613)	(11,019)
Total Group retained profits as per consolidated accounts	<u>46,169</u>	<u>45,168</u>

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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 RM0.931 million for the current quarter and the RM5.960 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 470,214,159 and 436,254,950 respectively as follows:-

	Quarter Ended 30/06/2015	Period Ended 30/06/2015
Net profit attributable to ordinary equity holders of the parent (RM'000)	931	5,960
Weighted average number of ordinary shares in issue ('000)	470,214	436,255
Basic earnings per share (sen)	0.20	1.37

(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 30/06/2015	Period Ended 30/06/2015
Net profit attributable to ordinary equity holders of the parent (RM'000)	931	5,960
Weighted average number of ordinary shares in issue ('000)	470,214	436,255
Effect of conversion of warrants ('000)	13,928	48,287
Diluted earnings per share (sen)	0.19	1.23