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

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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 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 September 2015 save for the following:-

**Details of treasury shares held**

	<b>Number of Treasury Shares</b>
Balance as at 30 June 2015	3,144,100
Repurchased during the quarter ended 30 September 2015	590,900
Balance as at 30 September 2015	<u>3,735,100</u>

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

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**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 30/9/2015				Quarter Ended 30/9/2014			
	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
EDCCS*	12,059	2,579	-	14,637	9,149	1,836	-	10,985
Labels	4,781	801	-	5,582	4,633	461	-	5,094
Properties	12,689	-	-	12,689	3,238	-	-	3,238
Total Revenue	<u>29,529</u>	<u>3,380</u>	<u>-</u>	<u>32,908</u>	<u>17,020</u>	<u>2,297</u>	<u>-</u>	<u>19,317</u>

  

	9 Months Period Ended 30/9/2015				9 Months Period Ended 30/9/2014			
	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
EDCCS*	35,778	5,605	-	41,383	26,845	4,627	-	31,472
Labels	14,502	2,072	-	16,573	14,054	1,311	-	15,365
Properties	22,423	-	-	22,423	3,238	-	-	3,238
Total Revenue	<u>72,703</u>	<u>7,677</u>	<u>-</u>	<u>80,379</u>	<u>44,137</u>	<u>5,938</u>	<u>-</u>	<u>50,075</u>

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

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

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

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

<b>Quarter Ended</b> <b>30.9.2015</b>	<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
<b>Revenue</b>					
Sales to external customers	14,637	5,582	12,689	-	32,908
Inter-segment sales	4	192	-	(196)	-
<b>Total revenue</b>	<b>14,641</b>	<b>5,774</b>	<b>12,689</b>	<b>(196)</b>	<b>32,908</b>
<b>Results</b>					
Interest income	64	-	6	-	70
Finance cost	97	73	-	-	170
Depreciation and amortisation	477	432	-	-	909
Share of results of equity-accounted associates	408	(204)	-	-	204
Net gain on deemed disposal of quoted investment	692	-	-	-	692
(Gain)/loss on foreign exchange	11	-	-	-	11
Income tax expense	20	76	770	-	866
<b>Segment profit after taxation</b>	<b>1,101</b>	<b>604</b>	<b>2,309</b>	<b>-</b>	<b>4,014</b>

<b>9 Months Period Ended</b> <b>30.9.2015</b>	<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
<b>Revenue</b>					
Sales to external customers	41,383	16,573	22,423	-	80,379
Inter-segment sales	12	582	-	(594)	-
<b>Total revenue</b>	<b>41,395</b>	<b>17,155</b>	<b>22,423</b>	<b>(594)</b>	<b>80,379</b>
<b>Results</b>					
Interest income	189	3	17	-	209
Finance cost	276	199	-	-	475
Depreciation and amortisation	1,032	1,452	-	-	2,484
Share of results of equity-accounted associates	1,349	(484)	-	-	865
Net gain on disposal/deemed disposal of quoted investment #	2,360	-	-	-	2,360
(Gain)/loss on foreign exchange	211	(47)	-	-	164
Income tax expense	9	250	1,613	-	1,872
<b>Segment profit after taxation</b>	<b>5,100</b>	<b>1,323</b>	<b>4,836</b>	<b>-</b>	<b>11,259</b>

# 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 RM1.4 million from Simat's private placement and a gain on disposal of in Simat of RM1.0 million as disclosed in Note A11.

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

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

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

<b>Quarter Ended</b> <b>30.9.2014</b>	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Property</u> RM '000	<u>Eliminations</u> RM '000	<u>Total</u> RM '000
<b>Revenue</b>					
Sales to external customers	10,985	5,094	3,238	-	19,317
Inter-segment sales	4,263	1,876	-	(6,139)	-
<b>Total revenue</b>	<b>15,248</b>	<b>6,970</b>	<b>3,238</b>	<b>(6,139)</b>	<b>19,317</b>
<b>Results</b>					
Interest income	54	-	4	-	58
Net gain on disposal/deemed disposal of quoted investment	1,198	-	-	-	1,198
Finance cost	73	70	-	-	143
Depreciation and amortisation	435	845	-	-	1,280
Gain/(loss) on foreign exchange	25	-	-	-	25
Share of loss/(profit) of associates	131	(112)	-	-	19
Income tax expense	34	28	166	-	228
<b>Segment profit after taxation</b>	<b>1,379</b>	<b>210</b>	<b>584</b>	<b>-</b>	<b>2,173</b>

<b>9 Months Period Ended</b> <b>30.9.2014</b>	<u>EDCCS*</u> RM '000	<u>Labels</u> RM '000	<u>Property</u> RM '000	<u>Elimination *</u> RM '000	<u>Total</u> RM '000
<b>Revenue</b>					
Sales to external customers	31,472	15,365	3,238	-	50,075
Inter-segment sales	8,933	5,254	-	(14,187)	-
<b>Total revenue</b>	<b>40,405</b>	<b>20,619</b>	<b>3,238</b>	<b>(14,187)</b>	<b>50,075</b>
<b>Results</b>					
Interest income	219	-	4	-	223
Net gain on disposal/deemed disposal of quoted investment	4,589	-	-	-	4,589
Finance cost	240	232	-	-	472
Depreciation and amortisation	1,403	1,258	-	-	2,661
Gain/(loss) on foreign exchange	62	1	-	-	63
Share of loss/(profit) of associates	711	(287)	-	-	424
Income tax expense	77	169	166	-	412
<b>Segment profit after taxation</b>	<b>5,294</b>	<b>667</b>	<b>544</b>	<b>(836)</b>	<b>5,669</b>

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

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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 September 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 September 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.
- (iv) On 24 July 2015, Simat undertook a private placement of 2.0 million Simat shares resulted a dilution of Grand-Flo's interest in Simat from 18.72% to 18.62% and a gain on deemed disposal of RM0.2 million.

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

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**A12. CHANGES IN COMPOSITION OF THE GROUP (CONT'D)**

- (v) On 28 September 2015, Simat undertook a private placement of 8.0 million Simat shares resulted a dilution of Grand-Flo's interest in Simat from 18.62% to 18.24% and a gain on deemed disposal of RM0.5 million.

**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:-

	<b>Quarter ended 30/09/2015 RM'000</b>	<b>Period ended 30/09/2015 RM'000</b>
Management fees to a related party	282	364
Rental fees to a related party	17	48

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(ii), 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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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 30 SEPTEMBER 2015**

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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 70.4% from RM19.3 million in the previous year's corresponding quarter to RM32.9 million for the quarter under review. The increase was mainly due to higher revenue from property division, as well as EDCCS and Labels division.

In tandem with the increase in revenue for the quarter, the Group's Profit Before Taxation ("PBT") of RM4.9 million for the current quarter ended 30 September 2015 increased 103.2% as compared to the previous year's corresponding quarter of RM2.4 million.

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

**i) EDCCS Segment**

EDCCS division recorded an increase in revenue of 33.2% or RM3.7 million quarter for the current quarter ended 30 September 2015 as compared with the previous year's corresponding quarter. In line with the increase in revenue, the PBT for current quarter of RM1.1 million improved by 595.5% or RM1.4 million as compared to previous quarter.

With the exclusion of the gain on disposal/deemed disposal of Simat shares, the PBT for the current quarter would have been RM0.4 million, increased by RM0.9 million or 290.8% as compared to the previous quarter.

**ii) Labels Business Segment**

For the current quarter under review, Labels division's revenue increased by RM0.5 million or 9.6% as compared to the previous year's corresponding quarter. The PBT of the segment for the current quarter was RM0.7 million, increased by 58.5% as compared to the previous quarter.

**iii) Property Development Segment**

Property development division's revenue for the quarter ended 30 September 2015 was mainly contributed by the Vortex project of ISB with a PBT of RM2.3 million.

**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 is confident that the Group will perform satisfactorily.

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

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**B4. TAXATION**

	<b>Quarter ended 30/09/2015 RM'000</b>	<b>Period ended 30/09/2015 RM'000</b>
Estimated income tax :		
Malaysia income tax	839	1,818
Foreign income tax	25	54
	864	1,872

- (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. This Pioneer Status had expired in August 2015.
- (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 19 NOVEMBER 2015**

There were no corporate proposals announced but not completed as at 19 November 2015, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.



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

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**B6. BORROWINGS**

The borrowings of the Company as at 30 September 2015 were as follows:-

	<b>As at 30/9/2015 RM'000</b>	<b>As at 30/9/2014 RM'000</b>
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,782	5,242
Overdraft	483	198
Term loan	3,624	4,237
Hire purchase & Lease payables	1,472	1,368
	<u>12,361</u>	<u>11,045</u>
Secured Long-term (due after 12 months):		
Term loan	14,438	7,113
Hire purchase & Lease payables	3,698	1,805
	<u>18,136</u>	<u>8,918</u>
Total Borrowings	<u>30,497</u>	<u>19,963</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 19 November 2015, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

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

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**B8. PROPOSED DIVIDEND PAYABLE**

No dividend was proposed or declared for the current financial period ended 31 December 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:-

	<b>Period ended 30/09/2015 RM'000</b>	<b>Period ended 30/09/2014 RM'000</b>
Total retained profits of the Group:		
-Realised	54,795	46,919
-Unrealised	1,717	1,710
	56,512	48,629
Total share of retained profits from the associates		
- Realised	6,203	6,882
Less: Consolidation adjustments	(13,688)	(11,793)
Total Group retained profits as per consolidated accounts	49,027	43,718

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

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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 RM2.858 million for the current quarter and the RM8.818 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 483,115,711 respectively as follows:-

	<b>Quarter Ended 30/09/2015</b>	<b>Period Ended 30/09/2015</b>
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,858	8,818
Weighted average number of ordinary shares in issue ('000)	483,116	483,116
Basic earnings per share (sen)	0.59	1.83

(b) **Diluted earnings per share**

Diluted earnings per share is not applicable as there were no potential ordinary shares in issue for the current quarter and cumulative quarter.