
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2016**

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 (öFRSö) 134: Interim Financial issued by Malaysian Accounting Standards Board (öMASBö) and paragraph 9.22 (Appendix 9B part A) of the Main Market listing requirement of the Bursa Malaysia Securities Berhad ("Bursa Securitiesö).

The interim financial statements should be read in conjunction with Grand-Flo Berhadö (öGrand-Floö or the öCompanyö) audited consolidated financial statements for the financial year ended (öFYEö) 31 December 2015.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2015.

A2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2015 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 2016 save for the following:-

Details of treasury shares held

	Number of Treasury Shares
Balance as at 30 June 2016	4,472,200
Repurchased during the quarter ended 30 September 2016	289,000
Balance as at 30 September 2016	4,761,200

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A7. DIVIDEND PAID

There was no dividend paid during the quarter under review.

A8. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter Ended 30/9/2016			Quarter Ended 30/9/2015		
	Malaysia	Others	Group	Malaysia	Others	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	10,688	2,190	12,879	12,058	2,579	14,637
Labels	2,440	796	3,236	4,781	801	5,582
Properties	9,447	-	9,447	12,689	-	12,689
Total Revenue	22,575	2,986	25,562	29,528	3,380	32,908

	9 Months Period Ended 30/9/2016			9 Months Period Ended 30/9/2015		
	Malaysia	Others	Group	Malaysia	Others	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EDCCS*	28,758	6,557	35,315	35,778	5,605	41,383
Labels	11,838	2,205	14,043	14,501	2,072	16,573
Properties	49,181	-	49,181	22,423	-	22,423
Total Revenue	89,777	8,762	98,539	72,702	7,677	80,379

* 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	EDCCS*	Labels	Properties	Eliminations	Total
30.9.2016	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	12,879	3,236	9,447	-	25,562
Inter-segment sales	-	102	-	(102)	-
Total revenue	12,879	3,338	9,447	(102)	25,562
Results					
Interest income	25	-	8	-	33
Finance cost	84	98	-	-	182
Depreciation and amortisation	445	446	-	-	891
Share of results of equity-accounted associates	137	563	-	-	700
Gain on foreign exchange	26	-	-	-	26
Income tax expense	(106)	(24)	(385)	-	(515)
Loss on disposal of subsidiary*	-	3,774	-	-	3,774
Goodwill on acquisition of subsidiaries written off*	-	4,636	-	-	4,636
Segmental (loss)/profit after taxation	578	(9,282)	1,265	(1,230)	(8,669)

* Included in other operating expenses

9 Months Period Ended	EDCCS*	Labels	Properties	Elimination	Total
30.9.2016	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	35,315	14,043	49,181	-	98,539
Inter-segment sales	1	350	-	(351)	-
Total revenue	35,316	14,393	49,181	(351)	98,539
Results					
Interest income	95	2	23	-	120
Finance cost	326	245	-	-	571
Depreciation and amortisation	1,120	1,340	-	-	2,460
Share of results of equity-accounted associates	(562)	714	-	-	152
Gain on foreign exchange	(181)	(30)	-	-	(211)
Income tax expense	(108)	(95)	(2,439)	-	(2,642)
Loss on disposal of subsidiary*	-	3,774	-	-	3,774
Goodwill on acquisition of subsidiaries written off*	-	4,636	-	-	4,636
Segmental (loss)/profit after taxation	(499)	(9,273)	7,742	(3,271)	(5,301)

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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>Properties</u>	<u>Eliminations</u>	<u>Total</u>
30.9.2015	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	14,637	5,582	12,689	-	32,908
Inter-segment sales	6	221	-	(227)	-
Total revenue	14,643	5,803	12,689	(227)	32,908
Results					
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
Loss on foreign exchange	11	-	-	-	11
Income tax expense	20	76	770	-	866
Segment profit after taxation	1,101	604	2,309	-	4,014

9 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Properties</u>	<u>Elimination</u>	<u>Total</u>
30.9.2015	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	41,383	16,573	22,423	-	80,379
Inter-segment sales	12	582	-	(594)	-
Total revenue	41,395	17,155	22,423	(594)	80,379
Results					
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
Segment profit after taxation	5,100	1,323	4,836	-	11,259

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 RMI.4 million from Simat's private placement and a gain on disposal of in Simat of RMI.0 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 ended 30 September 2016.

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 2015.

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 2016 save for the following:-

- a) Labels Network Sdn. Bhd.(öLNSBö), a wholly-owned subsidiary of Grand-Flo had on 29 August 2016 entered into a Share Sale and Purchase Agreement for the disposal of 100% equity interest in Kopacklabels Press Sdn. Bhd. (öKPSBö). KPSB ceased to be a subsidiary of LNSB and Grand-Flo. At group level, this resulted in loss on disposal of RM3.8 million and goodwill written-off of RM4.6 million (which arose during acquisition of LNSB).

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.

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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 30/9/2016 RM'000	Period ended 30/9/2016 RM'000
Management fees to a related party	159	901
Rental fees to a related party	11	45

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.

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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 for the third quarter ended 30 September 2016 declined by 22.3% to RM25.6 million as compared to the previous year's corresponding quarter of RM32.9 million due to soft market sentiments of the sectors that Grand-Flo is operating in.

The Group Loss Before Taxation (öLBTö) of RM8.2 million for the current quarter ended 30 September 2016 is down by 267.1% as compared to the Profit Before Taxation (öpBTö) for the previous year's corresponding quarter of RM4.9 million. This was mainly due to the loss on disposal of labels business.

With the exclusion of the exceptional items of the loss on disposal and write-off of goodwill of labels business for the current quarter and the exclusion of gain on disposal/deemed disposal of Simat shares for the corresponding quarter in the previous year, the PBT would have been RM0.3 million and RM4.2 million respectively. The decrease in PBT of 93.9% was mainly due to lower sales hence lower profit contribution to the Group.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

The revenue for the EDCCS division fell by 12.0% or RM1.8 million for the current quarter ended 30 September 2016 as compared with the previous year's corresponding quarter. In tandem with the drop in revenue, the division posted a LBT of RM0.5 million as compared to the LBT of RM2.0 million for the previous quarter ended 30 June 2016.

ii) Labels Business Segment

For the current quarter under review, Labels division recorded a decrease in revenue of 42.0% as compared to the previous year's corresponding quarter. The LBT of the segment for the current quarter was RM9.3 million compared to the previous quarter ended 30 June 2016 of RM0.2 million was due to the disposal of KPSB as mentioned in Note A11.

With the exclusion of the loss on disposal of RM3.8 million and the goodwill written off of RM4.6 million, the division posted a LBT of RM0.8 million as compared to the LBT of RM0.2 million for the previous quarter ended 30 June 2016.

iii) Property Development Segment

Property development division's revenue for the quarter ended 30 September 2016 was mainly contributed by the continuing Vortex project of ISB with a PBT of RM1.1 million for the current quarter under review.

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B3. COMMENTARY ON PROSPECTS

The Board will continue to remain focus on the Group's core businesses in these difficult economic conditions to achieve better performance in the following quarter in order to improve the overall financial results for the year ending 31 December 2016.

B4. TAXATION

	Quarter ended 30/9/2016 RM'000	Period ended 30/9/2016 RM'000
Estimated income tax :		
Malaysia income tax	494	2,600
Foreign income tax ⁽ⁱ⁾	21	42
	515	2,642

- (i) 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 21 NOVEMBER 2016

There were no corporate proposals announced but not completed as at 21 November 2016, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report save from the following :-

- (i) The Company had on 25 March 2016 announced the Proposed extension of Profit Guarantee period for its 50.0004% owned subsidiary, Innoceria Sdn. Bhd. (ISB)

Reference is made to the announcements dated 25 April 2014, 20 June 2014, 11 July 2014, 25 July 2014, 12 August 2014, 20 August 2014 and 21 August 2014 in relation to the acquisition of 50.0004% of ISB which was completed on 21 August 2014 (the Acquisition).

The Acquisition involved the acquisition by Grand-Flo of 125,001 ordinary shares of RM1.00 each in ISB, representing 50.0004% of the total issued and paid-up share capital of ISB from Chuah Chew Hai and Chong Poh Yoong (the Vendors) for a total purchase consideration of RM15.0 million satisfied by an issuance and allotment of 29,411,765 new Grand-Flo Shares at an issue price of RM0.34 per Grand-Flo share and cash of RM5.0 million. The Vendors also irrevocably covenant, warrant and guarantee to Grand-Flo that ISB shall have an aggregate audited Profit After Tax (PAT) of at least RM15.0 million ("Profit Guarantee") as follows:

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B5. STATUS OF CORPORATE PROPOSALS AS AT 21 NOVEMBER 2016 (CONT'D)

- RM5.0 million for the financial period commencing 1 January 2014 and ended 31 December 2014 (δYear 1 Guaranteed PATö);and
- RM10.0 million for the financial period commencing 1 January 2015 and ending 31 December 2015 (δYear 2 Guaranteed PATö)

The Board of Directors of Grand-Flo wishes to announce that the Profit Guarantee to Grand-Flo by the Vendors to have an aggregate audited PAT of at least RM15 million shall be extended to include financial period commencing 1 January 2016 and ending 31 December 2016. This agreement was reached after reasonable consideration of the unexpected longer gestation period in the development business which was not foreseen at the time of the Acquisition.

The Proposed extension of Profit Guarantee was approved by the shareholders during the Extraordinary General Meeting held on 2 August 2016.

B6. BORROWINGS

The borrowings of the Company as at 30 September 2016 were as follows:-

	As at 30/9/2016 RM'000	As at 30/9/2015 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	4,275	6,782
Overdraft	975	482
Term loan	9,866	3,624
Hire purchase & Lease payables	173	1,472
	<u>15,289</u>	<u>12,316</u>
Secured Long-term (due after 12 months):		
Term loan	3,071	14,438
Hire purchase & Lease payables	214	3,698
	<u>3,285</u>	<u>18,136</u>
Total Borrowings	<u>18,574</u>	<u>30,497</u>

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 (๘CAT๖) 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.

Save for the above, the Directors are not aware of any material litigations or claims against the Group and Company as 21 November 2016, 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 proposed a first and final single-tier dividend of 0.5 sen per share for the financial year ended 31 December 2015 which was approved by the shareholders during the Annual General Meeting held on 15 June 2016 and subsequently paid on 15 July 2016.

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 30/9/2016 RM'000	Period ended 30/9/2015 RM'000
Total retained profits of the Group:		
-Realised	55,368	54,795
-Unrealised	958	1,717
	56,326	56,512
Total share of retained profits from the associates		
- Realised	5,222	6,203
Less: Consolidation adjustments	(20,933)	(13,688)
Total Group retained profits as per consolidated accounts	40,615	49,027

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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 divided by the weighted average number of ordinary shares of RM0.10 each in issue during the period as follows:-

	Quarter Ended 30/9/2016	Period Ended 30/9/2016
(Loss)/Net profit attributable to ordinary equity holders of the parent (RM-'000)	(9,292)	(9,160)
Weighted average number of ordinary shares in issue ('000)	483,116	483,116
Basic earnings per share (sen)	(1.92)	(1.90)

(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.