
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 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 31 December 2016 save for the following:-

Details of treasury shares held

	Number of Treasury Shares
Balance as at 30 September 2016	4,761,200
Repurchased during the quarter ended 31 December 2016	1,045,600
Balance as at 31 December 2016	<u>5,806,800</u>

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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 31/12/2016			Quarter Ended 31/12/2015		
	Malaysia RM'000	Others RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Group RM'000
EDCCS*	13,665	3,454	17,119	11,832	5,704	17,536
Labels	545	868	1,413	4,019	812	4,831
Properties	3,206	-	3,206	18,148	-	18,148
Total Revenue	17,416	4,322	21,738	33,999	6,516	40,515

	12 Months Period Ended 31/12/2016			12 Months Period Ended 31/12/2015		
	Malaysia RM'000	Others RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Group RM'000
EDCCS*	42,423	10,011	52,434	47,611	10,938	58,549
Labels	12,383	3,074	15,457	18,520	2,884	21,404
Properties	52,387	-	52,387	40,570	-	40,570
Total Revenue	107,193	13,085	120,278	106,701	13,822	120,523

* 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
31.12.2016	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	17,119	1,413	3,206	-	21,738
Inter-segment sales	-	102	-	(102)	-
Total revenue	17,119	1,515	3,206	(102)	21,738
Results					
Interest income	26	30	8	-	64
Finance cost	282	99	1,315	(17)	1,679
Depreciation and amortisation	364	446	-	-	810
Share of results of equity-accounted associates	326	211	-	-	537
Gain on foreign exchange	(43)	(2)	-	-	(45)
Income tax expense	(37)	75	(251)	-	(213)
Segmental (loss)/profit after taxation	781	(15)	783	(1,048)	500

12 Months Period Ended	EDCCS*	Labels	Properties	Elimination	Total
31.12.2016	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	52,434	15,457	52,387	-	120,278
Inter-segment sales	7	414	-	(421)	-
Total revenue	52,441	15,871	52,387	(421)	120,278
Results					
Interest income	121	32	32	-	185
Finance cost	608	344	1,315	(17)	2,250
Depreciation and amortisation	1,484	1,399	-	-	2,883
Share of results of equity-accounted associates	(236)	925	-	-	689
Gain on foreign exchange	(138)	(9)	-	-	(147)
Income tax expense	(146)	(20)	(2,689)	-	(2,855)
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	283	(9,289)	8,524	(4,319)	(4,801)

[^] Included in other operating expenses

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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>
31.12.2015	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	17,536	4,831	18,148	-	40,515
Inter-segment sales	-	220	-	(220)	-
Total revenue	17,536	5,051	18,148	(220)	40,515
Results					
Interest income	51	-	5	-	56
Finance cost	89	94	594	-	777
Depreciation and amortisation	378	470	-	-	848
Stock written off	741	-	-	-	741
Share of results of equity-accounted associates	373	(63)	-	-	310
Gain on foreign exchange	(52)	(13)	-	-	(65)
Income tax expense	91	(646)	1,199	-	644
Segmental profit after taxation	869	590	3,427	-	4,886

12 Months Period Ended	<u>EDCCS*</u>	<u>Labels</u>	<u>Properties</u>	<u>Elimination</u>	<u>Total</u>
31.12.2015	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Sales to external customers	58,549	21,404	40,570	-	120,523
Inter-segment sales	12	778	-	(790)	-
Total revenue	58,561	22,182	40,570	(790)	120,523
Results					
Interest income	239	3	22	-	264
Finance cost	360	293	594	-	1,247
Depreciation and amortisation	1,410	1,921	-	-	3,331
Stock written off	1,052	-	-	-	1,052
Share of results of equity-accounted associates	1,722	(547)	-	-	1,175
Net gain on disposal/deemed disposal of quoted investment #	2,360	-	-	-	2,360
Gain on foreign exchange	(1)	(60)	-	-	(61)
Income tax expense	86	(396)	2,813	-	2,503
Segmental profit after taxation	5,916	1,914	8,263	-	16,093

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.

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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 31 December 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 31 December 2016 save for the following:-

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) (öProposed Disposalö). The Proposed Disposal by LNSB of 100,000 ordinary shares of RM1.00 each representing 100% of the issued and paid-up share capital of KPSB was completed on 13 September 2016 and thereafter KPSB ceased to be a subsidiary of LNSB and Grand-Flo.

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 31/12/2016 RM'000	Period ended 30/12/2016 RM'000
Management fees to a related party	9	909
Rental fees to a related party	-	45
	-	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 fourth quarter ended 31 December 2016 declined by 46.3% to RM21.7 million as compared to the previous year's corresponding quarter of RM40.5 million mainly due to lower sales from labels business as a result of the disposal of KPSB as mentioned in note A11 above and also lower billings by the property development division as the projects are expected to be completed in 2017.

The Group Profit Before Taxation (öPBTö) of RM0.8 million for the current quarter ended 31 December 2016 is down by 87.1% as compared to the Profit Before Taxation (öPBTö) for the previous year's corresponding quarter of RM5.5 million. This was mainly due to lower revenue from the property division, hence lower profit contribution to the Group's bottomline.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS Segment

For the current quarter under review, EDCCS division recorded a marginal decrease in revenue of 2.4% as compared with the previous year's corresponding quarter. In tandem with the marginal drop in revenue, the division posted a Loss Before Taxation (öLBTö) of RM0.4 million as compared to the LBT of RM0.5 million for the previous quarter ended 30 September 2016.

ii) Labels Business Segment

The revenue for the Labels division fell by 70.7% or RM3.4 million for the current quarter ended 31 December 2016 as compared to the previous year's corresponding quarter. This was mainly due to the disposal of KPSB. The PBT of the segment for the current quarter was RM0.1 million.

With the exclusion of the loss on disposal of RM3.8 million and the goodwill written off of RM4.6 million in the previous quarter ended 30 September 2016, the LBT would have been RM0.8 million as compared to the PBT of RM0.1 million for the current quarter under review which improved by 208.2% or RM0.9 million.

iii) Property Development Segment

Property development division's revenue for the quarter ended 31 December 2016 was mainly contributed by the continuing Vortex project of ISB with a PBT of RM1.0 million for the current quarter under review.

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B3. COMMENTARY ON PROSPECTS

For 2017, the growth of Grand-Flo's EDCCS segment will be driven by continuing support from existing customers expanding their business operations and/or upgrading their technology to be in line with present technology advancement. Another growth area will be from prospective customers for us to fulfill their growing needs to implement EDCCS to improve efficiency in order to be remain competitive. All these will further boost the Group's EDCCS maintenance income as it is also a main contributing source of revenue by the EDCCS segment.

Going forward, contribution from the Group's Labels segment is expected to be immaterial. This is due to the decrease in expected turnover, lower sales margin, rising cost and inflating foreign currency on imported materials.

For the Property segment, cognisant of the potential impact of the generally subdued market conditions, the focus will be on ensuring that marketing activities are carried out effectively to sell the remaining units of Vortex and Glades.

B4. TAXATION

	Quarter ended 31/12/2016 RM'000	Period ended 31/12/2016 RM'000
Estimated income tax :		
Malaysia income tax	116	2,716
Foreign income tax ⁽ⁱ⁾	97	139
	213	2,855

- (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 23 FEBRUARY 2017

There were no corporate proposals announced but not completed as at 23 February 2017, 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.(öISBö)

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 öAcquisitionö).

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B5. STATUS OF CORPORATE PROPOSALS AS AT 23 FEBRUARY 2017 (CONT'D)

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:

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

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 31 December 2016 were as follows:-

	As at 31/12/2016 RM'000	As at 31/12/2015 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,629	5,477
Overdraft	500	384
Term loan	5,251	12,447
Hire purchase & Lease payables	135	1,176
	12,515	19,484
Secured Long-term (due after 12 months):		
Term loan	6,478	6,104
Hire purchase & Lease payables	216	705
	6,694	6,809
Total Borrowings	19,209	26,293

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 (๓CAT๓) 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 23 February 2017, 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 31/12/2016 RM'000	Period ended 31/12/2015 RM'000
Total retained profits of the Group:		
-Realised	56,146	61,906
-Unrealised	736	1,045
	<u>56,882</u>	<u>62,951</u>
Total share of retained profits from the associates		
- Realised	5,222	4,087
Less: Consolidation adjustments	(21,409)	(14,900)
Total Group retained profits as per consolidated accounts	<u>40,695</u>	<u>52,138</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 divided by the weighted average number of ordinary shares of RM0.10 each in issue during the period as follows:-

	Quarter Ended 31/12/2016	Period Ended 31/12/2016
(Loss)/Net profit attributable to ordinary equity holders of the parent (RM='000)	110	(9,050)
Weighted average number of ordinary shares in issue ('000)	483,116	483,116
Basic earnings per share (sen)	0.02	(1.87)

(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.