
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE QUARTER ENDED 30 JUNE 2017**

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 Berhad's (öGrand-Floö or the öCompanyö) audited consolidated financial statements for the financial year ended (öFYEö) 31 December 2016.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted in the annual financial statements for the financial year ended 31 December 2016.

A2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements for the FYE 31 December 2016 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. SHARE CAPITAL AND SHARE PREMIUM

Included in share capital is share premium amounting to RM14,538,275 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74 of Companies Act 2016).

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A7. 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 2017 save for the following:-

Details of treasury shares held

	Number of Treasury Shares
Balance as at 31 March 2017	6,093,900
Repurchased during the quarter ended 30 June 2017	244,900
Balance as at 30 June 2017	<u>6,338,800</u>

A8. DIVIDEND PAID

There was no dividend paid during the quarter under review.

A9. OPERATING SEGMENT

(a) Analysis of revenue by geographical area

	Quarter & 3 Months Period Ended 30/6/2017			Quarter & 3 Months Period Ended 30/6/2016		
	Malaysia RM'000	Others RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Group RM'000
EDCCS* & Labels	13,646	2,710	16,355	13,343	3,485	16,828
Properties	8,371	-	8,371	24,550	-	24,550
Total Revenue	22,017	2,710	24,726	37,893	3,485	41,378

	6 Months Period Ended 30/6/2017			6 Months Period Ended 30/6/2016		
	Malaysia RM'000	Others RM'000	Group RM'000	Malaysia RM'000	Others RM'000	Group RM'000
EDCCS* & Labels	24,828	5,630	30,458	27,468	5,776	33,244
Properties	14,638	-	14,638	39,734	-	39,734
Total Revenue	39,466	5,630	45,096	67,202	5,776	72,978

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

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A9. OPERATING SEGMENT (CONT'D)

(b) Analysis of revenue by product categories

Quarter & 3 Months Period Ended	EDCCS* & Labels	Properties	Total
30.6.2017	RM '000	RM '000	RM '000

Revenue

Sales to external customers	16,355	8,371	24,726
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Results

Interest income	22	5	27
Finance cost	(289)	(171)	(460)
Depreciation and amortisation	(75)	-	(75)
Share of results of equity-accounted associates	81	-	81
Net gain on disposal/deemed disposal of quoted investment #	5,155	-	5,155
Loss on disposal of property, plant and equipment	(199)	-	(199)
Gain on foreign exchange	1	-	1
Income tax expense	(25)	(238)	(263)
Segmental profit after taxation	4,590	490	5,081

6 Months Period Ended	EDCCS* & Labels	Properties	Total
30.6.2017	RM '000	RM '000	RM '000

Revenue

Sales to external customers	30,458	14,638	45,096
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Results

Interest income	46	15	61
Finance cost	(526)	(285)	(811)
Depreciation and amortisation	(428)	-	(428)
Share of results of equity-accounted associates	694	-	694
Net gain on disposal/deemed disposal of quoted investment #	5,155	-	5,155
Loss on disposal of property, plant and equipment	(199)	-	(199)
Gain on foreign exchange	63	-	63
Income tax expense	(81)	(504)	(585)
Segmental profit after taxation	4,879	1,173	6,052

Included in the other operating income is a realised gain on disposal of quoted investment in Simat Technologies Public Company Limited ("Simat") of RM5.2 million as disclosed in Note A12.

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A9. OPERATING SEGMENT (CONT'D)

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

Quarter & 3 Months Period Ended	EDCCS* & Labels	Properties	Total
30.6.2016	RM '000	RM '000	RM '000
Revenue			
Sales to external customers	16,828	24,550	41,378
Results			
Interest income	27	9	36
Finance cost	(191)	-	(191)
Depreciation and amortisation	(842)	-	(842)
Share of results of equity-accounted associates	(255)	-	(255)
Gain on foreign exchange	100	-	100
Income tax expense	(58)	(1,411)	(1,469)
Segmental (loss)/profit after taxation	(2,209)	4,484	2,275

6 Months Period Ended	EDCCS* & Labels	Properties	Total
30.6.2016	RM '000	RM '000	RM '000
Revenue			
Sales to external customers	33,244	39,734	72,978
Results			
Interest income	72	15	87
Finance cost	(390)	-	(390)
Depreciation and amortisation	(1,658)	-	(1,658)
Share of results of equity-accounted associates	(548)	-	(548)
Gain on foreign exchange	(185)	-	(185)
Income tax expense	(73)	(2,054)	(2,127)
Segmental (loss)/profit after taxation	(3,109)	6,478	3,369

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 2017.

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A10. 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 2016 except during the quarter ended 30 June 2017, Labels Network Sdn. Bhd.(öLNSBö), a wholly-owned subsidiary of Grand-Flo entered into a Sale and Purchase Agreement for the disposal of property which resulted a loss on disposal of RM0.2 million. Loss on disposal of property is determined by comparing the proceeds from disposal with the carrying amount of property and is recognised as expense in the income statements. The amounts included in the revaluation surplus reserve are then transferred to retained earnings.

Other than the above, 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.

A11. 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.

A12. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group for the financial period ended 30 June 2017 save for the following:-

- a) Simat had on 5 June 2017, issued 1,461,821 ordinary shares of Baht 1.00 each from conversion of warrants to shares by other Simat warrant holders during the quarter. This conversion resulted in a dilution of the Group's interest in Simat from 18.24% to 18.10% and a non-cash loss of RM0.1 million from deemed disposal of Simat's shares.
- b) The Company had on 20 June 2017 and 23 June 2017 disposed 15.0 million and 8.0 million Simat's shares representing 5.79% equity interest in Simat at Baht 3.33 per share for a total cash consideration of Baht 76,590,000 (equivalent to RM9,150,776) (öThe Disposalö). The Disposal reduced the Group's equity in Simat from 18.10% to 12.31% and resulted in a nett gain of RM5.2 million. The consideration from The Disposal was fully received on 28 June 2017.

A13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

A14. CAPITAL COMMITMENTS

There were no material commitments as at the end of the current quarter under review.

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A15. 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 30/06/2017 RM'000	Period ended 30/06/2017 RM'000
Management fees to a related party	427	444
Sales to a related party	27	285
Purchase from a related party	10	25

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.

A16. STATUS OF UTILISATION OF PROCEEDS

As disclosed in Note A12, Grand-Flo had on 20 June 2017 and 23 June 2017 disposed of 5.79% of share investment (23,000,000 ordinary shares of Baht 1.00 each) in Simat for a total cash consideration of RM9,150,776 (BAHT76,590,000). The sale proceeds have been used to repay a 2-year term loan of RM7,500,000. Balance of the sale proceeds will be utilizing as working capital and new business investment.

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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

The Group recorded revenue of RM24.7 million (2016: RM41.4 million) and Profit Before Taxation (öPBTö) of RM5.3 million (2016: RM3.7 million) for the quarter under review.

The Group's revenue for the current quarter ended 30 June 2017 declined by 40.2% to RM24.7 million as compared to the previous year's corresponding quarter mainly due to lower billings by the property development division as it had completed its project, The Glades in June 2017 and Phase 1 of The Vortex in July 2017.

The Group's PBT of RM5.3 million for the current quarter ended 30 June 2017 was increased by 42.7% as compared to the previous year's corresponding quarter of RM3.7 million. This was mainly contributed by the gain on disposal of Simat's shares of RM5.2 million (please refer note A12).

With the exclusion of the gain on disposal of Simat's shares and loss on disposal of property for the current quarter the Group's PBT would have been RM0.4 million, which represents a decrease in PBT of 89.7% that was mainly due to lower sales by the property development division and lower profit margin from the EDCCS & Labels division, hence lower profit contribution to the Group.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS & Labels

For the current quarter under review, EDCCS and labels division recorded a decrease in revenue of 2.8% as compared with the previous year's corresponding quarter. The division posted a PBT of RM4.6 million as compared to the PBT of RM0.3 million for the previous quarter ended 31 March 2017.

With the exclusion of the gain on disposal of Simat's shares of RM5.2 million and the loss on disposal of property of RM0.2 million, the division posted a Loss Before Taxation of RM0.3 million as compared to the PBT of RM0.3 million for the previous quarter ended 31 March 2017.

ii) Property Development

Property development division's revenue for the quarter ended 30 June 2017 was mainly derived from the progress billings of The Glades which was completed in June 2017 with a PBT of RM0.7 million for the current quarter under review.

B3. COMMENTARY ON PROSPECTS

Moving forward, the Board remains optimistic of the EDCCS segment's continued viability. The growth of this segment will be mainly driven by projects from government-linked entities and continuous support from new and existing customers through the rising adoption of electronic commerce as well as technology refresh.

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B3. COMMENTARY ON PROSPECTS (CONT'D)

For the Property segment, the Group's focus will remain centred on selling the remaining units of Vortex and Glades.

B4. TAXATION

	Quarter ended 30/6/2017 RM'000	Period ended 30/6/2017 RM'000
Estimated income tax :		
Malaysia income tax	243	528
Foreign income tax	20	57
	263	585

B5. STATUS OF CORPORATE PROPOSALS AS AT 24 AUGUST 2017

There were no corporate proposals announced but not completed as at 24 August 2017, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

B6. BORROWINGS

The borrowings of the Company as at 30 June 2017 were as follows:-

	As at 30/06/2017 RM'000	As at 30/06/2016 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	7,958	6,820
Overdraft	5,354	1,298
	2,452	9,307
Term loan		
Hire purchase & Lease payables	163	1,149
	15,927	18,574
Secured Long-term (due after 12 months):		
Term loan	2,061	3,370
Hire purchase & Lease payables	106	2,46
	2,167	3,617
Total Borrowings	18,094	22,190

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 24 August 2017, being the latest practicable date, not earlier than seven (7) days from the date of issuance of this report.

B8. PROPOSED DIVIDEND PAYABLE

There was no dividend proposed in respect of the current financial year during the financial period under review.

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 30/06/2017 RM'000	Period ended 30/06/2016 RM'000
Total retained profits of the Group:		
-Realised	67,795	61,908
-Unrealised	702	1,043
	68,497	62,951
Total share of retained profits from the associates		
- Realised	4,294	5,222
Less: Consolidation adjustments	(24,834)	(15,902)
Total Group retained profits as per consolidated accounts	47,957	52,271

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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 30/06/2017	Period Ended 30/06/2017
Net profit attributable to ordinary equity holders of the parent (RM-000)	4,861	5,513
Weighted average number of ordinary shares in issue (-000)	483,116	483,116
Basic earnings per share (sen)	1.01	1.14

(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.