

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

PART A – EXPLANATORY NOTES PERSUANT TO FRS 134

A1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

This condensed consolidated financial statements (*%Condensed Report+*) has been prepared in accordance with Financial Reporting Standards (*%FRSs+*) 134 *Interim Financial Reporting*, International Accounting Standard (*%IAS+*) 34 *Interim Financial Reporting* and the requirement of the Companies Act 2016 in Malaysia, where applicable.

This Condensed Report has also been prepared in accordance with paragraph 9.22 (Appendix 9B part A) of the Main Market listing requirement of Bursa Malaysia Securities Berhad ("*Bursa Securities+*").

This Condensed Report should be read in conjunction with Grand-Flo Berhad's (*%Grand-Flo+*, the *%Company+* or the *%Group+*) audited consolidated financial statements for the financial year ended (*%YE+*) 31 December 2016. The explanatory notes attached to the Condensed Report provide an explanation of event and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

The accounting policies and methods of computation adopted for this Condensed Report is consistent with those adopted in the annual financial statements for the financial year ended 31 December 2016 except for the adoption of the following new FRSs, amendments to FRSs and IC Interpretations that are effective for financial statements effective from 1 January 2017, as disclosed below:

Amendments to FRS effective 1 January 2017	
Amendments to FRS 107	Disclosure Initiative
Amendments to FRS 112	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to FRS 12	Annual Improvements to FRS Standards 2014-2016 Cycle

The adoption of the above amendments to FRSs does not have any significant impact to the Group.

The Group has not applied the following new FRSs, new interpretations and Amendments to FRSs that have been issued by the MASB which are not yet effective for the Group.

MFRSs and IC Interpretations	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers & Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018

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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. SIGNIFICANT ESTIMATES AND 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).

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 September 2017 save for the following:-

Details of treasury shares held

	Number of Treasury Shares
Balance as at 30 June 2017	6,338,800
Repurchased during the quarter ended 30 September 2017	930,000
Balance as at 30 September 2017	<u>7,268,800</u>

A8. DIVIDEND PAID

There was no dividend paid during the quarter under review.

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A9. OPERATING REVENUE

OPERATING REVENUE BY GEOGRAPHICAL AREA FOR THE QUARTER

	Malaysia			Others [#]			Total		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Major segments:									
EDCCS* & Labels	17,187	13,129	30.9	2,710	2,986	(9.2)	19,897	16,115	23.5
Properties	8,589	9,447	(9.1)	-	-	-	8,589	9,447	(9.1)
Total revenue	25,776	22,576	14.2	2,710	2,986	(9.2)	28,486	25,562	11.4

OPERATING REVENUE BY GEOGRAPHICAL AREA FOR YEAR-TO-DATE

	Malaysia			Others [#]			Total		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Major segments:									
EDCCS* & Labels	41,866	40,596	3.1	8,490	8,762	(3.1)	50,356	49,358	2.0
Properties	23,226	49,181	(52.8)	-	-	-	23,226	49,181	(52.8)
Total revenue	65,092	89,777	(27.5)	8,490	8,762	(3.1)	73,582	98,539	(25.3)

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

[#] Based on an exchange rate of HKD100 : RM54.13, being the middle rate quoted by the Bank Negara Malaysia ("BNM") as at 29 September 2017.

A10. OTHER INCOME

	Quarter Ended			Year-To-Date Ended		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Interest income	81	34	138.2	143	120	19.2
Gain on foreign exchange	47	26	80.8	111	211	(47.4)
Gain on disposal of property plant & equipment ("PPE")	-	-	-	-	7	-
Net gain on disposal of an associate	-	-	-	5,155	-	-
Rental income	41	101	(59.4)	101	343	(70.6)
Miscellaneous income	60	3	1900.0	111	4	2675.0
Total other income	229	164	39.6	5,621	685	720.6

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A11. OTHER SEGMENTAL INFORMATION

	OPERATING SEGMENT BY PRODUCT FOR THE QUARTER								
	EDCCS & Labels			Properties			Total		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Revenue (note A9)	19,897	16,115	23.5	8,589	9,447	(9.1)	28,486	25,562	11.4
Other income (note A10)	188	156	20.5	41	8	412.5	229	164	39.6
Direct cost	17,855	17,292	3.3	7,315	7,806	(6.3)	25,170	25,098	0.3
Segment profit/(loss)	2,230	(1,021)	318.4	1,315	1,649	(20.3)	3,545	628	464.5
Finance cost	(107)	(181)	(40.9)	-	-	-	(107)	(181)	(40.9)
Depreciation and amortisation	(98)	(891)	(89.0)	-	-	-	(98)	(891)	(89.0)
Inventories written down	(394)	-	-	-	-	-	(394)	-	-
Disposal on PPE	(3)	-	-	-	-	-	(3)	-	-
Share of results of associates	68	700	(90.3)	-	-	-	68	700	(90.3)
Loss on disposal of subsidiary	-	(3,774)	-	-	-	-	-	(3,774)	-
Goodwill on acquisition of subsidiary written off	-	(4,636)	-	-	-	-	-	(4,636)	-
Income tax expenses	(208)	(130)	60.0	(169)	(385)	(56.1)	(377)	(515)	(26.8)
Segmental profit/(loss) after taxation	1,488	(9,933)	115.0	1,146	1,264	(9.3)	2,634	(8,669)	130.4

	OPERATING SEGMENT BY PRODUCT FOR YEAR-TO-DATE								
	EDCCS & Labels			Properties			Total		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	%
Revenue (note A9)	50,356	49,358	2.0	23,226	49,181	(52.8)	73,582	98,539	(25.3)
Other income (note A10)	5,545	662	737.6	76	23	230.4	5,621	685	720.6
Direct cost	48,292	51,560	(6.3)	20,311	39,024	(48.0)	68,603	90,584	(24.3)
Segment profit/(loss)	7,609	(1,540)	594.1	2,991	10,180	(70.6)	10,600	8,640	22.7
Finance cost	(632)	(571)	10.7	-	-	-	(632)	(571)	10.7
Depreciation and amortisation	(487)	(2,460)	(80.2)	-	-	-	(487)	(2,460)	(80.2)
Inventories written down	(394)	-	-	-	-	-	(394)	-	-
Disposal on PPE	(202)	(10)	1920.0	-	-	-	(202)	(10)	1920.0
Share of results of associates	762	152	401.3	-	-	-	762	152	401.3
Loss on disposal of subsidiary	-	(3,774)	-	-	-	-	-	(3,774)	-
Goodwill on acquisition of subsidiary written off	-	(4,636)	-	-	-	-	-	(4,636)	-
Income tax expenses	(289)	(204)	41.7	(672)	(2,438)	(72.4)	(961)	(2,642)	(63.6)
Segmental profit/(loss) after taxation	6,367	(13,043)	148.8	2,319	7,742	(70.0)	8,686	(5,301)	263.9

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A11. OTHER SEGMENTAL INFORMATION (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 2017.

A12. CARRYING AMOUNT OF REVALUED ASSETS

The valuations of property, plant and equipment (PPE) have been brought forward without amendment from the financial statement for the year ended 31 December 2016 except during the quarter ended 30 September 2017, Labels Network Sdn. Bhd. (LNSB), 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 PPE, 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.

A13. SUBSEQUENT EVENTS

Save for the below, there were no other material events subsequent to the end of the current quarter under review.

Grand-Flo had on 19 October 2017 announced to Bursa Securities that the Company proposes to undertake the following:

- a) proposed disposal of entire shareholding comprising 48,899,373 Simat Shares, representing approximately 12.31% equity interest in Simat, at a disposal price of Thai Baht (THB) 2.70 per shares for a total cash consideration of THB132,028,307 (equivalent to approximately RM16,715,840) (Proposed Disposal of Simat Shares);

The Proposed Disposal of Simat Shares had been completed on 9 November 2017 and Simat ceased to be an associate company of Grand-Flo.

- b) LNSB had on 19 October 2017 entered into a Share Sale Agreement with Mr. Tan Huai Wei and Mr. Hong Han Sua for the disposal of the Company's entire shareholding comprising 240,000 ordinary shares and representing 80% of the issued and paid-up share capital of Kopacklabels (Pg) Sdn Bhd (KPSB) for a cash consideration of RM700,000.00. (Proposed Disposal of KPSB Shares)

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A13. SUBSEQUENT EVENTS (CONT'D)

The Proposed Disposal of KPSB Shares had been completed on 7 November 2017 and KPSB ceased to be a subsidiary company of Grand-Flo.

A14. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group for the financial period ended 30 September 2017 for the current quarter under review.

A15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

A16. CAPITAL COMMITMENTS

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

A17. 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 30/9/2017 RM'000	Period ended 30/9/2017 RM'000
Management fees to a related party	216	660
Sales to a related party	54	349
Purchase from a related party	3	36

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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A18. STATUS OF UTILISATION OF PROCEEDS

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 had been used to repay a 2-year term loan of RM7,500,000. The status of utilisation of the sale proceeds is as follows:

	Projected proceeds utilisation RM'000	Actual utilisation RM'000	Balance RM'000
Utilisation up to 30.9.2017			
Working Capital	1,651	900	751
2-year term loan	7,500	7,500	-
Total	9,151	8,400	751

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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

	Quarter Ended			Year-To-Date Ended		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	28,486	25,562	11.4	73,582	98,539	(25.3)
Cost of sales	(21,053)	(20,895)	0.8	(55,677)	(74,775)	(25.5)
Gross profit	7,433	4,667	59.3	17,905	23,764	(24.7)
Profit/loss before taxation ("PBT"/"LBT")	3,011	(8,155)	136.9	9,648	(2,659)	462.8
Profit/loss after taxation ("PAT"/"LAT")	2,634	(8,669)	130.4	8,687	(5,301)	263.9

The Group recorded revenue of RM28.5 million (2016: RM25.6 million) and PBT of RM3.0 million (2016 LBT: RM8.2 million) for the quarter under review.

The Group's revenue for the current quarter ended 30 September 2017 increased by 11.4% to RM28.5 million as compared to the previous year's corresponding quarter mainly contributed by strong sales in certain public utilities, FMCG and semi-conductors sectors of Grand-Flo's EDCCS segment.

The Group's PBT of RM3.0 million for the current quarter ended 30 September 2017 was increased by 136.9% as compared to the previous year's corresponding quarter of LBT of RM8.2 million. This was mainly contributed by the profit from both property development division and EDCCS & Labels division.

With the exclusion of the exceptional items of the loss on disposal and write-off of goodwill of labels business for the previous year corresponding quarter, the PBT would have been RM0.3 million for the previous year corresponding quarter as compared to RM3.0 million for the current quarter ended 30 September 2017.

B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

i) EDCCS & Labels

	Quarter Ended			Year-To-Date Ended		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	19,897	16,115	23.5	50,356	49,358	2.0
Cost of sales	(14,365)	(13,640)	5.3	(37,332)	(38,933)	(4.1)
Gross profit	5,532	2,475	123.5	13,024	10,425	24.9
Profit/loss before taxation ("PBT"/"LBT")	1,696	(9,805)	117.3	6,656	(12,840)	151.8
Profit/loss after taxation ("PAT"/"LAT")	1,488	(9,933)	115.0	6,367	(13,043)	148.8

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B2. DETAILED ANALYSIS OF THE GROUP'S OPERATING SEGMENTS (CONT'D)

i) EDCCS & Labels (cont'd)

For the current quarter under review, EDCCS and labels division recorded an increase in revenue of 23.5% as compared with the previous year's corresponding quarter. This was mainly contributed by strong sales in certain public utilities, FMCG and semi-conductors sectors of Grand-Flo's EDCCS segment.

The division posted a PBT of RM1.7 million as compared to the PBT of RM5.3 million (which included a gain on disposal of shares in an associate of RM5.2 million and a loss on disposal of PPE of RM0.2 million) for the previous quarter ended 30 June 2017.

With the exclusion of the gain on disposal of Simat's shares and the loss on disposal of property, the LBT would have been RM0.4 million for the previous quarter ended 30 June 2017 as compared to PBT RM1.7 million for the current quarter ended 30 September 2017.

ii) Property Development

	Quarter Ended			Year-To-Date Ended		
	30/9/2017	30/9/2016	Changes	30/9/2017	30/9/2016	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	8,589	9,447	(9.1)	23,226	49,181	(52.8)
Cost of sales	(6,688)	(7,255)	(7.8)	(18,346)	(35,842)	(48.8)
Gross profit	1,901	2,192	(13.3)	4,880	13,339	(63.4)
Profit before taxation ("PBT")	1,315	1,650	(20.3)	2,992	10,181	(70.6)
Profit after taxation ("PAT")	1,146	1,265	(9.4)	2,320	7,742	(70.0)

Property development division's revenue for the quarter ended 30 September 2017 was mainly derived from the progress billings of The Glades which was completed in June 2017 with a PBT of RM1.3 million for the current quarter under review.

B3. COMMENTARY ON PROSPECTS

Moving forward, the Board is optimistic that the EDCCS segment will continue to record significant contribution to the Group with good growth, driven, mainly by projects from government-linked entities and good support from new and existing customers through the rising adoption of electronic commerce as well as technology refresh.

The board is confident that property segment will continue to contribute to the Group's financial performance.

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B4. TAXATION

	Quarter ended 30/9/2017 RM'000	Period ended 30/9/2017 RM'000
Estimated income tax :		
Malaysia income tax	347	875
Foreign income tax	29	86
	376	961

B5. STATUS OF CORPORATE PROPOSALS AS AT 28 NOVEMBER 2017

There were no corporate proposals announced but not completed as at 28 November 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 September 2017 were as follows:-

	As at 30/9/2017 RM'000	As at 30/9/2016 RM'000
Secured Short-term (due within 12 months):		
Bankers' Acceptance / Factoring	6,533	4,275
Overdraft	-	975
Term loan	943	9,866
Hire purchase & Lease payables	151	173
	7,627	15,289
Secured Long-term (due after 12 months):		
Term loan	1,805	3,071
Hire purchase & Lease payables	73	214
	1,878	3,285
Total Borrowings	9,505	18,574

There was no unsecured borrowing for the current quarter. All borrowings were denominated in Ringgit Malaysia.

The effective annual interest rates at the reporting date for borrowings are as follows:-

	2017 %	2016 %
Bankers' Acceptance	3.83 . 5.49	3.83 . 5.49
Overdraft	7.00 . 7.25	7.00 . 7.25
Term loan	3.75 . 8.10	3.75 . 8.10
Hire purchase & Lease payables	2.40 . 3.61	2.40 . 3.61

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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 (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.

Save for the above, the Directors are not aware of any material litigations or claims against the Group and Company as 28 November 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 30/9/2017 RM'000	Period ended 30/9/2016 RM'000
Total retained profits of the Group:		
-Realised	66,798	55,368
-Unrealised	619	958
	<u>67,417</u>	<u>56,326</u>
Total share of retained profits from the associates		
- Realised	4,362	5,222
Less: Consolidation adjustments	<u>(21,743)</u>	<u>(20,933)</u>
Total Group retained profits as per consolidated accounts	<u>50,036</u>	<u>40,615</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 30/9/2017	Period Ended 30/9/2017
Net profit attributable to ordinary equity holders of the parent (RM'000)	2,079	7,592
Weighted average number of ordinary shares in issue ('000)	483,116	483,116
Basic earnings per share (sen)	0.43	1.57

(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.