

GRAND-FLO BERHAD (“GRAND-FLO” OR THE “COMPANY”)

- (I) PROPOSED ACQUISITION BY GRAND-FLO OF THE REMAINING 124,999 ORDINARY SHARES IN INNOCERIA SDN BHD (“ISB”) (“ISB SHARE(S)”) NOT ALREADY HELD BY GRAND-FLO, REPRESENTING 49.9996% OF THE TOTAL NUMBER OF ISSUED SHARES OF ISB FOR A CASH CONSIDERATION OF RM21.9 MILLION (“PROPOSED ACQUISITION”); AND
- (II) PROPOSED DIVERSIFICATION OF THE CORE BUSINESS OF GRAND-FLO TO INCLUDE CONSTRUCTION BUSINESS AND CONSTRUCTION RELATED ACTIVITIES (“PROPOSED DIVERSIFICATION”)

(COLLECTIVELY REFERRED TO AS THE “PROPOSALS”)

1. INTRODUCTION

UOB Kay Hian Securities (M) Sdn Bhd (“UOBKH”), on behalf of the Board of Directors of Grand-Flo (“Board”), wishes to announce the following:-

- (i) Grand-Flo had on 10 April 2018 entered into a conditional Share Sale Agreement (“SSA”) with Chuah Chew Hai (“CCH” or the “Vendor”) for the acquisition of the remaining 49.9996% equity interest in ISB, consisting of 124,999 ordinary shares held by the Vendor (“ISB Shares” or “Sale Shares”), for a cash consideration of RM21.9 million for the purpose of the Proposed Acquisition; and
- (ii) Grand-Flo proposes to diversify its existing core businesses of enterprise data collection and collation system (“EDCCS”) and property development to include construction business and construction related activities.

The Proposed Acquisition is deemed as a related party transaction (“RPT”) in accordance with Paragraph 10.08 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”). Details of the interests of the directors and major shareholders of Grand-Flo and/or persons connected to them in relation to the Proposed Acquisition are set out in **Section 9** of this announcement.

Further details of the Proposals are set out in the ensuing sections.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Acquisition

2.1.1 Background

Grand-Flo currently owns 50.0004% equity interest in ISB. This stake was acquired in August 2014 for a purchase consideration of RM15.0 million and was satisfied by a combination of cash and issuance of shares in Grand-Flo (“Grand-Flo Shares”) (“Initial Acquisition”). The Initial Acquisition marked Grand-Flo’s foray into property development, and currently both the EDCCS and property development businesses are contributing towards the financial performance of Grand-Flo and its subsidiaries and associates (collectively, “Grand-Flo Group” or the “Group”).

For the financial year ended (“FYE”) 31 December 2016 and 2017, the Grand-Flo Group’s total revenue was RM120.28 million and RM104.05 million, respectively, of which the property development segment contributed RM52.39 million (43.6%) and RM30.17 million (29.0%), respectively, to the Group’s total revenue. In FYE 31 December 2017, the net profit from the property development segment amounted to RM2.77 million, contributing 82.9% to the Group’s total net profit of RM3.34 million (after exclusion of one-off net gain on disposal of a subsidiary and associate).

In order to fully consolidate the financial results of ISB, Grand-Flo is proposing to undertake the Proposed Acquisition. The Proposed Acquisition entails the acquisition of 124,999 ISB Shares, representing 49.9996% equity interest in ISB from the Vendor for a cash consideration of RM21.9 million (“**Purchase Consideration**”). Upon completion of the Proposed Acquisition, ISB will become a wholly-owned subsidiary of Grand-Flo.

The Sale Shares will be acquired free from all encumbrances, liens, charges and with all rights, benefits and entitlements attaching thereto.

2.1.2 Information on ISB

(i) Background and history

ISB was incorporated in Malaysia on 29 September 2009 as a private limited company and having its registered office at Third Floor, No. 79 (Room A), Jalan 21/60, Damansara Utama, 47400 Petaling Jaya, Selangor.

(ii) Principal activity

ISB is principally involved in the business of property development. ISB is currently involved in an on-going mixed development project (shop-offices and light industrial factories) which is being carried out on 3 adjoining parcels of development land owned by ISB held under Lot 520, Lot 524 and Lot 5780 of Geran 48323, Geran Mukim 756 and Geran 140865, respectively, located off Jalan Batu Kawan, Bukit Tambun, Penang (“**Vortex Business Park Project**”).

The 2 phases of the development for the Vortex Business Park Project, as well as the number of units sold as at 31 March 2018, being the latest practicable date prior to this announcement (“**LPD**”), comprise of the following:-

	Type	Number of units sold as at the LPD
Phase 1	<ul style="list-style-type: none"> • 34 units of 4-storey semi-detached shop-offices • 34 units of 4-storey light industrial factories 	84% or 57 units out of 68 units have been sold, whilst another unit has been reserved and pending the sale and purchase agreement.
Phase 2	<ul style="list-style-type: none"> • 26 units of 4-storey semi-detached shop-offices • 18 units of 4-storey light industrial factories 	Yet to launch. The site has been leveled and ready for development but the main building works has yet to commence.

Phase 1 of Vortex Business Park Project was completed in July 2017 whilst Phase 2 has recently commenced construction and is expected to be completed by June 2020. The estimated gross development value (“**GDV**”) and gross development cost (“**GDC**”) for Phase 2 are approximately RM88.17 million and RM74.50 million (inclusive of costs incurred up to 31 December 2017 of approximately RM25.4 million), respectively.

Information on the land held by ISB

The details of the remaining land to be developed by ISB for Phase 2 of the Vortex Business Park Project ("**Vortex Land**") as set out in the valuation report dated 9 April 2018 issued by Henry Butcher Malaysia (Penang) Sdn Bhd ("**Henry Butcher**"), an independent registered valuer appointed by Grand-Flo in relation to the Proposed Acquisition ("**Valuation Report**") are set out below:-

Description	:	Comprising 26 parcels of subdivided commercial plot and 18 parcels of subdivided industrial plots located within a commercial-cum-industrial mixed development known as Vortex Business Park
Lot Nos (Title Nos)	:	Lot No. 20670 to Lot No. 20679 (H.S.(D) 49666 to H.S.(D) 49675) (commercial plot) Lot No. 20714 to Lot No. 20729 (H.S.(D) 49710 to H.S.(D) 49725) (commercial plot) Lot No. 20730 (H.S.(D) 49726), Lot No. 20731 (H.S.(D) 49727), Lot No. 20766 to Lot No. 20781 (H.S.(D) 49762 to H.S.(D) 49777) (industrial plot)
Mukim/District/State	:	Mukim 14, District of Seberang Perai Selatan, Pulau Pinang (in respect of all titles)
Land area	:	Aggregate 23,559 square meters or 253,587 square feet
Category of land use	:	Building (<i>Bangunan</i>) (in respect of Lot No. 20670 to Lot No. 20679 and Lot No. 20714 to Lot No. 20729) Industrial (<i>Perusahaan/Perindustrian</i>) (in respect of Lot No. 20730, Lot No. 20731 and Lot No. 20766 to Lot No. 20778) None (<i>Tiada</i>) (redesignated to industrial use as per the planning approval which is appended in the Valuation Report) (in respect of Lot No. 20779, Lot No. 20780 and Lot No. 20781)
Existing use (as at 31 December 2017)	:	The site has been leveled and ready for development but the main building works has yet to commence
Registered proprietor	:	Innoceria Sdn Bhd (in respect of all titles)
Tenure	:	Freehold (in respect of all titles)
Restriction-in-interest	:	Nil
Encumbrances	:	Nil
Market value*	:	RM22.90 million
Net book value (as at 31 December 2017)	:	Approximately RM3.98 million

Note:-

* *The market value appraised by Henry Butcher via its Valuation Report was derived using the Discounted Cash Flow Method and counter checked using the Residual Method of valuation.*

(iii) **Share capital**

As at the LPD, the share capital of ISB is as follows:-

	No. of shares	RM
Share capital		
- ISB Shares	250,000	250,000
- Redeemable non-convertible preference shares of RM0.10 each (" ISB RNCPS ")*	26,000,000	2,600,000

Note:-

* *The ISB RNCPS does not have a maturity date. ISB shall have the right at any time to redeem in whole or in part of the ISB RNCPS proportionately by giving not less than 14 days' notice in writing to the holder of the ISB RNCPS. The amount paid for the redemption of ISB RNCPS shall be at par of RM0.10 each plus a premium of RM0.90 each together with the sum equal to any arrears or deficiency of the cumulative ISB RNCPS preferential dividend thereon to be calculated up to redemption date.*

(iv) **Subsidiary and associate company**

As at the LPD, ISB does not have any subsidiary or associate companies.

(v) **Directors and substantial shareholders**

The directors of ISB are CCH, Tan Bak Hong and Yu Chee Sing. The shareholders of ISB and their respective shareholdings in ISB as at the LPD are as follows:-

ISB Shares

Name	Direct		Indirect	
	No. of ISB Shares	(%)	No. of ISB Shares	(%)
Grand-Flo	125,001	50.0004	-	-
CCH	124,999	49.9996	-	-

ISB RNCPS

Name	Direct		Indirect	
	No. of RNCPS Shares	(%)	No. of RNCPS Shares	(%)
Grand-Flo	13,000,104	50.0004	-	-
CCH	12,999,896	49.9996	-	-

(vi) **Summary of financial information**

Based on the latest audited financial statements for the FYE 31 December 2017, the profit after tax and net assets of ISB are approximately RM0.27 million and RM18.85 million, respectively.

2.1.3 Salient terms of the SSA

The salient terms of the SSA include, amongst others, the following:

(i) Settlement of the Purchase Consideration

- (a) The Purchase Consideration of RM21.9 million shall be satisfied by cash in the following manner:-

Payment	Date of settlement	(RM'000)
First Payment	To be paid to the Vendor on the Completion Date ⁽¹⁾ of the SSA.	3,000
Balance Purchase Price	To be paid to the Vendor in multiple tranches ("Deferred Payment(s)") over a period of 30 months from the Completion Date ("Deferred Payment Period"), whereby each Deferred Payment shall be made within 30 days from the completion of the sale of each unit of the properties under the Vortex Business Park Project, the particulars of which are set out in Annexure A of the SSA ("Selected Property(ies)") ⁽²⁾ , and shall be of an amount equivalent to the Net Sales Proceeds ⁽³⁾ in relation to the property provided always that the Deferred Payments in aggregate shall be up to and not exceed the Balance Purchase Price. For the purpose of this clause, the completion of the sale of each of the Selected Properties shall be the date when the full purchase price in respect of the property has been received by or on behalf of ISB in accordance with the terms of the sale and purchase agreement thereto.	18,900
Total		21,900

Notes:-

- (1) Completion Date means not later than 30 days from the Unconditional Date (as defined below).
- (2) Selected Properties refer to the 10 unsold units as at the LPD under Phase 1 of the Vortex Business Park Project.
- (3) Net Sales Proceeds refer to the sales proceeds received in respect of each Selected Property less all transaction cost paid or payable by the Vendor including but not limited to the commission, fees and expenses thereto.
- (b) In the event that all the Selected Properties are sold prior to the expiry of the Deferred Payment Period or the Extended Deferred Payment Period (as hereinafter defined), Grand-Flo shall pay to the Vendor the difference or shortfall (if any), between the aggregate Deferred Payments and the Balance Purchase Price within the period of 30 days or such further period as may be mutually agreed by the parties in writing.

- (c) In the event that, upon the expiry of the Deferred Payment Period, any part of the Balance Purchase Price is still due and owing by Grand-Flo to the Vendor and any of the Selected Properties remain unsold, either Grand-Flo or the Vendor (collectively referred to as the “Parties” or individually as a “Party”) may elect to further extend for a period of 6 months or for such other period with the mutual agreement of the other party in writing (“Extended Deferred Payment Period”).
- (d) Pursuant to **Section 2.1.3(i)(c)** above, in the event that, upon the expiry of the Extended Deferred Payment Period or the Deferred Payment Period (where there is no extension), any part of the Balance Purchase Price is still due and owing by Grand-Flo to the Vendor and any of the Selected Properties remains unsold, such outstanding amount of the Balance Purchase Price shall, unless otherwise agreed, be settled as follows:
 - (i) Grand-Flo shall acquire any of the Selected Properties remaining unsold, and thereafter sell the same to the Vendor at the prevailing selling price determined by the Company;
 - (ii) the Vendor shall set-off the purchase consideration for the acquisition in **Section 2.1.3(i)(d)(i)** above against the outstanding amount of the Balance Purchase Price; and
 - (iii) any remaining part of the Balance Purchase Price thereafter shall be paid by way of cash by Grand-Flo to the Vendor;

provided always that the aggregate of the Deferred Payments together with the consideration from Grand-Flo herein shall not exceed the Balance Purchase Price.

(ii) Conditions Precedent

The Proposed Acquisition is subject to the following conditions precedent being fulfilled (“**Conditions Precedent**”) not later than 6 months from the date of the SSA (or such other extended date as may be mutually agreed between Grand-Flo and the Vendor):-

- (a) Grand-Flo having completed to its satisfaction, a due diligence review on ISB and its assets, in particular, the Vortex Land, which is to be conducted by Grand-Flo and/or its advisers;
- (b) Grand-Flo obtaining shareholders’ approval for the Proposed Acquisition; and
- (c) the approvals, consents, authorisations, permits or waivers of any other relevant governmental or regulatory body and any other third parties necessary or appropriate to carry out the Proposed Acquisition.

The SSA shall become unconditional upon fulfilment of the last of the Conditions Precedent (“**Unconditional Date**”).

(iii) Termination

Grand-Flo or the Vendor may, at any time prior to Completion, elect to terminate the SSA by giving a Notice of Termination to the other Party, if:-

- (a) the other Party is, has become, or is found to be bankrupt or insolvent, is unable to pay its debts as they fall due, proposes or enters into any composition or other arrangement for the benefit of its creditors generally, or any proceedings are commenced relating to winding up or reconstruction or adjustment of debts; or
- (b) an administrator or receiver or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of the other Party.

In the event of a Notice of Termination being duly given pursuant to the aforesaid circumstances, then without prejudice to any rights or remedies whatsoever available to a non-defaulting Party under the SSA or in law, then the SSA will have no further effect and the parties will not be liable to each other except under:-

- (a) the clauses relating to confidentiality and termination under the SSA;
- (b) any obligation under the SSA which is expressed to apply after the termination of the SSA; and
- (c) in respect of any antecedent breach of the SSA occurring before termination.

(iv) Completion

Unless otherwise agreed by the Parties in writing, completion of the SSA shall take place on a Business Day not later than 30 days after the Unconditional Date, or on such later date as the Parties shall mutually agree in writing when the Vendor shall deliver to Grand-Flo or Grand-Flo's solicitors:-

- (a) the duly executed by the Vendor but undated share transfer form(s) (Form of Transfer of Securities pursuant to Section 105 of the Companies Act, 2016) in respect of the Sale Shares ("**Share Transfer**");
- (b) the original share certificate(s) duly issued by the Vendor in respect of the Sale Shares; and
- (c) the certified true copy or extract of a meeting of the board of ISB approving the transfer of the Sale Shares from the Vendor to Grand-Flo and the registration of Grand-Flo as the holder in the register of members of ISB;

whereupon Grand-Flo shall be absolutely entitled to:-

- (a) submit the Share Transfer to any relevant stamp office for adjudication of stamp duty payable and thereafter stamping of the same;
- (b) call for a meeting of the board of directors of ISB at which ISB approves the registration of the Share Transfer in the relevant books and register of ISB; and thereafter

- (c) direct the company secretary of ISB to effect the transfer of the Sale Shares to Grand-Flo or its nominees or assignees and to reissue the certificates for the Sale Shares in the name of Grand-Flo.

(v) Other salient terms

(a) Default

Default by Vendor

In the event of the Vendor defaulting or failing to observe or perform or otherwise being in breach of any provision in the SSA, and such default, non-observance or non-performance or otherwise, if capable of remedy, has not been remedied by the prescribed period after Grand-Flo shall have given written notice to the Vendor to remedy such breach, then Grand-Flo shall be entitled, at its sole and absolute discretion to exercise the right of specific performance of the SSA against the Vendor and to all reliefs flowing therefrom.

Default by Grand-Flo

In the event of Grand-Flo defaulting or failing to observe or perform or otherwise being in breach of any provision in the SSA, and such default, non-observance or non-performance or otherwise, if capable of remedy, has not been remedied by the prescribed period after the Vendor shall have given written notice to Grand-Flo to remedy such breach, then the Vendor shall be entitled to claim for damages.

(b) Parties' representations and warranties

Each of the Parties represents and warrants to the other Party that the representations and warranties set out as below are true and correct as at the date of the SSA and shall be true and correct throughout the subsistence of the SSA with the same force and effect as if they had been made as at that later date in the circumstances then existing:-

- (a) The facts in relation to the Parties as set out in the SSA are materially true and correct.
- (b) It has the full power to enter into and carry out the provisions of the SSA.
- (c) In the case of Grand-Flo, it is a company duly incorporated and existing under, and by virtue of, the laws of Malaysia or the laws of the relevant jurisdiction in which such company is incorporated and it has not been placed under receivership and there are no steps being commenced and/or institute by any person to place it under receivership; and it has not been wound-up and is a going concern and there are no winding-up proceedings being commenced and/or instituted by any person against it.

In the case of the Vendor, he has not been adjudicated or found to be bankrupt or had any bankruptcy proceedings commenced against him.

2.1.4 Information on the Vendor

CCH, aged 55, is a director and shareholder of ISB. He graduated with a diploma in Technology (Building) from Tunku Abdul Rahman College (KL) in 1987. He has over 20 years of experience in the construction and property development industry. Together with his spouse, Chong Poh Yoong (“CPY”), he co-founded Metrio Development Sdn Bhd in October 2002, which is principally involved in property development.

He began his career in 1986 as a quantity surveyor in ABT Construction Sdn Bhd where he was involved in the preparation and submission of tender documents, as well as managing and monitoring contractor claims and progress reports. He subsequently joined Wah Bee Construction Engineering Sdn Bhd in 1989 as a quantity surveyor where he was responsible for handling progress claims and project cost control, as well as leading the tendering of projects and contracts.

In 1991, he joined Oriental Max Sdn Bhd as a construction manager, where he spearheaded the operations of the construction department which entailed site supervision works, monitoring site progress, project cost quality and ensuring timely completion of the projects. He then joined Panther Construction in 1993 as a partner where he was responsible for managing the operations and overseeing the tendering of projects, as well as resource planning and costing. Then, in 2002, he co-founded Metrio Development Sdn Bhd. His extensive experience and knowledge in construction and development industry has driven Metrio group of companies (“**Metrio Group**”) to become one of the more prominent property developers in the Northern Region of Peninsular Malaysia.

The details of some of Metrio Group’s completed projects are as follows:-

Project	Type	GDV (RM'million)	Commencement date	Completion date
Taman Seri Gemilang, Penang	17 units of terrace houses, 24 units of semi-detached houses and 3 units of bungalows	15	29 June 2002	15 May 2006
Taman Seri Cendana, Penang	124 units of semi-detached houses and 17 units of bungalows	53	6 November 2006	13 October 2008
Residency @ Cendana (Phase 1), Penang	97 units of terrace houses, 24 units of semi-detached houses and 15 units of shop-offices	38	19 December 2007	3 August 2010
Residency @ Cendana (Phase 2), Penang	62 units of semi-detached houses and 17 units of bungalows	42	17 April 2009	13 August 2012
Residency @ Cendana (Phase 3), Penang	77 units of bungalows	56	22 January 2010	10 December 2012

As at the LPD, the existing project undertaken by the Metro Group is as follows:-

Project	Type	GDV (RM'million)	Commencement date	Completion date
Beverly Heights, Penang	16 units of bungalows	78	8 May 2011	Expected 30 June 2018

At present, he is a director and shareholder of ISB and Grand-Flo.

The original cost of investment by CCH in ISB is RM124,999 comprising 124,999 ordinary shares which was acquired in September 2012.

2.1.5 Basis and justification in arriving at the Purchase Consideration

The Purchase Consideration of RM21.9 million for the Sale Shares was arrived at on a 'willing buyer-willing seller' basis, after taking into account the following:-

- (i) The market value of the Vortex Land of RM22.9 million as ascribed by Henry Butcher in its Valuation Report. The valuation was carried out based on the Discounted Cash Flow Method and counter checked using the Residual Method of valuation.

Henry Butcher has adopted the Discounted Cash Flow Method to derive at the final market value as the cash flow for the on-going development project (Phase 2) on the Vortex Land can be reasonably determined in accordance to the development progress of the project. In the Discounted Cash Flow Method, consideration is given to the capitalisation of all costs, sales and profits, the timing of receipts and payments and the determination of all future costs, liability and commitments in order to derive the net cash flow. The net cash flow of each period is then discounted at a suitable discount rate (in this instance, 7.5%).

- (ii) The value of the 12 unsold units under Phase 1 as at 31 December 2017. The aggregate selling price of the 12 units is approximately RM26.51 million and the inventory cost as at 31 December 2017 is approximately RM18.50 million. As at the LPD, 1 unit has been sold and 1 unit has been reserved with only 10 remaining unsold units.

- (iii) Approximately 49.9996% adjusted net assets ("NA") of ISB of approximately RM21.9 million based on the audited financial statement of ISB for the FYE 31 December 2017. For illustration purposes, the adjusted net assets after taking into consideration the market value of Vortex Land and the unbilled sales of 12 units as at 31 December 2017 is computed as follows:-

	RM'000
Audited NA of ISB as at 31 December 2017	18,853
Add: Surplus*	26,934
Less: Tax expenses for the gross profit of 12 units (24%)	(1,923)
Adjusted NA	<u>43,864</u>
Equity interest to be acquired	49.9996%
Proportionate share of the adjusted NA (RM'000)	21,932

Note:-

* For illustration purposes, the surplus arising from the properties is calculated as follows:-

	Phase 1 (12 units) (RM'000)	Phase 2 (Vortex Land) (RM'000)	Total (RM'000)
Selling price/ Market value of the assets	26,514	22,900	49,414
Less: Audited net book value as at 31 December 2017	(18,501)	(3,979)	(22,480)
Surplus	8,013	18,921	26,934

Based on the above, the Purchase Consideration represents a marginal discount to the adjusted NA of ISB as at 31 December 2017.

2.1.6 Liabilities to be assumed

Save for the obligations and liabilities of ISB in its ordinary course of business, there are no other liabilities, including contingent liabilities and guarantees, to be assumed by Grand-Flo pursuant to the Proposed Acquisition. The Sale Shares shall be acquired free from all encumbrances, liens, charges and with all rights, benefits and entitlements attaching thereto.

2.1.7 Additional financial commitment required

Apart from the Purchase Consideration and the development costs to be incurred for Phase 2 (Vortex Business Park), Grand-Flo does not expect to incur any additional financial commitment to put the assets and/or business of ISB on stream after the completion of the Proposed Acquisition.

2.1.8 Source of funding

The Purchase Consideration will be satisfied in cash via internally generated funds of the Group.

For clarification purposes, the Net Sales Proceeds received from the sale of the Selected Properties are not intended to be used to fund the Purchase Consideration. The Deferred Payments of the Purchase Consideration, as set out in **Section 2.1.3(i)** of this announcement, acts as an incentive to the Vendor to complete the sale of the 10 remaining unsold units prior to the completion of Phase 2.

2.2 Proposed Diversification

2.2.1 Details of the Proposed Diversification

Presently, the Group is principally involved in the business of providing EDCCS which includes the supply of enterprise data collection hardware and devices, software, technical support and maintenance services, printing of adhesive labels and stickers, as well as property development.

The Group plans to diversify into construction business and construction related activities to expand its earnings base and to complement its property development business. In this regard, Grandcon Sdn Bhd (formerly known as Grand-Flo Construction Sdn Bhd) ("**Grandcon**"), a wholly-owned subsidiary of Grand-Flo was identified to carry out the Group's construction business and to tender for new construction projects in the near term. Grandcon holds a Construction Industry Development Board ("**CIDB**") Grade 7 License issued in February 2018 to undertake construction works within Malaysia.

The Group already has the required expertise and experience in construction by leveraging on the competency and experience of its key personnel, CCH. The Group intends to leverage on CCH's network and relationship with property developers in Malaysia to secure construction contracts. The Group may allocate 25% or more of the Group's net assets to the construction business as it diversifies into construction business which may contribute 25% or more to the net profits of Grand-Flo Group in the future.

As such, the Board proposes to seek the approval from the shareholders of Grand-Flo for the Proposed Diversification pursuant to Paragraph 10.13 of the Listing Requirements at the forthcoming EGM.

2.2.2 Key personnel

The Board believes that the Group has the capacity, capability and resources to diversify into construction activities by capitalising on the competency and experience of the following key management of Grandcon:-

(i) CCH

The profile of CCH is set out in **Section 2.1.4** of this announcement.

(ii) Mohd Shahrin Bin Hashim ("Mohd Shahrin")

Mohd Shahrin Bin Hashim, aged 48, is a director of Grandcon. He obtained his Bachelor of Science in Civil Engineering in 1997 from Universiti Teknologi Malaysia. He has over 20 years of experience in the construction industry.

He started his career as a project manager with Alunan Asas Sdn Bhd in 1997, specialising in civil engineering, where he was responsible for overseeing various projects undertaken by the company. He was subsequently appointed as a director in Alunan Asas Sdn Bhd in the same year, and has played a prominent role in the company since. During his tenure in Alunan Asas Sdn Bhd, he was involved in overseeing various projects, including the following:-

Project	Type	Contract Value (RM'million)	Commencement Date	Completion Date
Sekolah Menengah Sains Kepala Batas, Penang	School building	55	20 December 2006	27 February 2009
Teluk Kumbar Heights, Penang	Earthwork, retaining wall and infrastructure works	30	6 August 2009	15 June 2011
Sekolah Tunas Bakti, Penang	School building	23	2 February 2010	15 July 2012
Platinum III, Penang	3 blocks of 27-storey condominium (357 units), with 5 storey of car park podium and 1 storey community facility.	98	15 January 2013	15 September 2015
Sunway Wellesley, Penang	60 units of semi-detached houses, 150 units of townhouse and 1 unit of club house	72	15 November 2013	31 August 2016

He was subsequently appointed as a Director of Grandcon in October 2017, where he is responsible for advising and monitoring of progress of future projects.

The Group will leverage on the expertise of the key management personnel mentioned above in managing the construction business.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

3.1 Proposed Acquisition

The Proposed Acquisition will enable the Group to increase its equity interest and gain full control of ISB. Upon completion of the Proposed Acquisition, Grand-Flo will be able to consolidate ISB's earnings in full.

ISB currently owns the development rights and interests in the Vortex Business Park Project, which is presently in Phase 2 of development ("**Phase 2**"). Phase 1 of the Vortex Business Park Project, which was completed in July 2017, was well-received with take-up rate of approximately 84% as at the LPD.

Phase 2 entails the development of semi-detached shop-offices and light industrial factories with an estimated GDV of approximately RM88.17 million and gross development profit of RM13.67 million to be realised over a development period of 2.5 years. The Group anticipates that Phase 2 will be able to achieve a similar take-up rate as Phase 1, and believes that it will contribute positively to the earnings of the Group for the future financial years.

In addition, the settlement of the Purchase Consideration in multiple tranches is intended to reduce the immediate cash outflow from the Company and act as an incentive to the Vendor to complete the sale of the 10 remaining unsold units prior to the completion of Phase 2.

3.3 Proposed Diversification

The Group intends to diversify into construction business and construction related activities in order to provide additional revenue stream and enhance its earning base. The Proposed Diversification complements the Group's existing business in property development, and will be beneficial for the Group in the long term as it will be able to offer full-range of services in property development and construction.

Further, the Group already has the required expertise and experience to develop and grow the construction business by leveraging on the competency and experience of its key personnel, namely, CCH and Mohd Shahrin. Grandcon currently holds a Grade 7 license approved by CIDB which enables Grandcon to tender for all types of construction work for any contract value in Malaysia.

4. INDUSTRY OVERVIEW AND PROSPECTS

4.1 Overview and outlook of global and Malaysian economy

The global economy continued to record an upward growth of 3.5% (fourth quarter of 2016 (“Q4 2016”): 3%) in the fourth quarter of 2017. This was attributed to strong expansion in the advanced economies and in the emerging market and developing economies. Growth in the advanced economies was supported by higher investment and strong external demand, while growth in the emerging market and developing economies was mainly contributed by favourable external demand.

The global economy is projected to continue its growth momentum in 2018 by 3.9% (2017: 3.7%) driven by a sustained performance in the advanced economies as well as in the emerging market and developing economies.

The Malaysian economy expanded strongly by 5.9% during the fourth quarter of 2017 (Q4 2016: 4.5%). Growth was supported by domestic demand, particularly private sector spending. On the supply side, all sectors registered a positive growth except mining and quarrying. For 2017, the economy grew 5.9% (2016: 4.2%), surpassing the earlier estimation of 5.2% – 5.7%.

The Malaysian economy is expected to sustain a steady growth momentum, ranging between 5% – 5.5% in 2018. The growth will be underpinned by strong domestic demand, particularly private sector spending coupled with the favourable external sector. On the supply side, growth is anticipated to be broad-based led by services and manufacturing sectors. Inflation is expected to be manageable while the labour market to remain stable.

(Source: Quarterly Update on the Malaysian Economy – 4th Quarter 2017, Ministry of Finance Malaysia)

4.2 Overview and prospect of Penang property market

The property market performance for Penang state has softened in 2016. The review period registered 18,352 transactions with a total value of RM9.56 billion, substantially down by 14.9% in volume and 18.3% in value (2015: 21,555 transactions worth RM11.70 billion). Residential sub-sector continued to propel the overall market, accounting for 72.2% of the state’s property market volume. This was followed by the commercial (9.2%), agricultural (8.7%), development land (7.4%) and industrial sub-sectors (2.4%).

Residential sub-sector retained its lion share of the market, contributed 72.2% of total transactions. The market activity recorded 13,244 transactions worth RM5.36 billion. This indicated a substantial decrease of 13.4% and 13.1% in volume and value respectively against 2015.

The commercial sub-sector also softened. There were 1,696 transactions recorded in 2016 with a total value of RM1.19 billion, a significant decline of 20.7% in volume and 42.4% in value (2015: 2,140 transactions worth RM2.07 billion). Shop sub-sector recorded 855 transactions worth RM649.03 million in 2016. Against 2015, the market activity was on downward trend, significantly declined by 29.1% in volume and 45.8% in value.

In the commercial sub-sector, shops prices were largely stable with increases recorded in strategically located areas. The rental market also depicted similar trend. In central town prime area, rental of ground floor shop in Seberang Perai Tengah portrayed positive movements with Autocity fetched the highest monthly rental between RM6,600 and RM21,600. Similar property in Bayan Bay, Barat Daya charted double-digit growth due to its good location and neighbourhood attractions.

The industrial sub-sector softened in the review period. There were 443 transactions worth RM908.54 million recorded, showing a mark decline of 29.9% in volume but value saw a significant increase of 23.7% (2015: 632 transactions worth RM734.66 million). On the whole, market prospects remain promising. The current rental rates and sale prices of industrial properties in Penang State are expected to remain unchanged over the short and medium term.

Forward-looking, the state's property market would remain on a positive path backed by various on-going and proposed development projects. Transport infrastructure development remains the state's focus in line with Penang Transport Master Plan for long-term highways projects. The Penang mega project, part of the RM6.3 billion infrastructure package, comprising three highways and a undersea tunnel linking the island to the mainland.

(Source: Property Market Report 2016 / Henry Butcher Research)

4.3 Overview of the construction industry in Malaysia

The construction sector expanded 5.8% during the fourth quarter of 2017 ("Q4 2017") (Q4 2016: 5.1%) attributed to positive growth in all subsectors, particularly civil engineering (14.2%) and specialised construction activities at 8.5% (Q4 2016: 10%; 2.5%). Civil engineering subsector was mainly supported by construction of utility and transport infrastructure projects. Meanwhile, the specialised construction activities expanded further mainly driven by electrical wiring and sanitary equipment, installation of solar energy collectors and interior design projects. The non-residential subsector continued to expand at a moderate pace of 0.3% (Q4 2016: 0.1%) following lower incoming supply, particularly in Klang Valley and Johor region. However, the residential subsector moderated 1.1% (Q4 2016: 7.1%) weighed down by lower sales in high-end properties but cushioned by construction of service apartments and Government affordable housing schemes.

During Q4 2017, the total value of completed construction work expanded 7.7% to register RM35.1 billion involving 8,747 projects (Q4 2016: 8.1%; RM32.6 billion; 9,791 projects). Of which, civil engineering subsector and special trades activities grew 18.4% and 9.5%, respectively. In terms of ownership of the projects, the private sector continues to lead the construction activity with a share of 63.3% (RM22.2 billion) while the remaining by the public sector.

(Source: Quarterly Update on the Malaysian Economy – 4th Quarter 2017, Ministry of Finance Malaysia)

4.4 Future prospects of Grand-Flo Group

Moving forward, the Board expects the prospects of the EDCCS division to remain positive as enterprises are more receptive to automating their manufacturing and business operations, and the existing clientele are constantly upgrading their system solutions. Grand-Flo Group will continue to invest in its research and development in proprietary software to meet customers' expectation in order to differentiate itself from the competitors.

The Proposed Acquisition represents an opportunity for Grand-Flo Group to grow and enhance its existing property development segment. The Board is of the view that the prospects of the Vortex Business Park Project will be favourable, as the Vortex Land is located strategically in the northern part of Seberang Perai, Penang with convenient accessibility, surrounded by well-planned amenities, and numerous businesses and industries within the nearby vicinities which augurs well for the marketability of the projects.

Further, with the credentials and knowledge gathered from the Vortex Business Park Project, Grand-Flo Group is optimistic that it will be able to build on its experience and replicate the success for future development projects. As at the LPD, save for the Vortex Business Park Project, Grand-Flo Group does not have any other development projects planned. Nevertheless, Grand-Flo Group will continuously seek for opportunities to acquire land with favourable prospects or undertake joint ventures with landowners for its future development activities.

In addition, the Board believes that diversifying into construction business and construction related activities will complement the Group's existing business in property development industry and enhance Grand-Flo Group's profile. This will enable them to offer full-range of services from feasibility and viability assessment, development planning, construction and completion of the project. Apart from undertaking the construction works for the Group's future property development projects, Grand-Flo Group will also actively participate in open tenders for other construction contracts.

5. RISK FACTORS IN RELATION TO THE PROPOSALS

5.1 Business and operational risk

The Proposed Acquisition is subject to risks inherent in the property development industry, of which Grand-Flo is already involved in. Some of these risks may include, amongst others, adverse changes in real estate market prices, changes in demand for types of residential, industrial and commercial properties, competition from other property developers, changes in economic social and political condition, financing options which may not be on favourable terms to the Grand-Flo Group, delay in completion of property development projects, fluctuations in the prices of building material and costs of labour charges, and performance of third-party sub-contractors. Any adverse changes in these conditions may have an adverse material effect on the Grand-Flo Group.

The Proposed Diversification is subject to risks inherent in the construction sector, including among others, timely commencement and/ or completion of projects, increases in cost of energy, shortage of skilled workers in the construction sector, adverse weather conditions, natural disasters, accidents and changes in general economic, business and credit conditions. The Group will adopt prudent management and efficient operating procedures to adapt to any negative changes in the construction industry. However, no assurance can be given that any changes in these factors will not have any material adverse effect on the Group's business and financial performance.

5.2 Competition risk

Whilst the property development industry generally has a high barrier to entry, Grand-Flo Group faces competition from existing industry players as well as new market entrants into the industry, resulting in intense competition for, amongst others, land bank and customer base. Any oversupply of properties due to a mismatch in supply and demand will intensify the level of competition which may affect pricing. There can be no assurance that buyers will purchase properties from our developments instead of our competitors.

Our Group will constantly explore new possibilities of acquiring new land banks or undertake joint ventures with land owners, and will undertake marketing strategies to mitigate such risks in response to the changing market condition as well as adopting different concepts and innovative designs to convey our message across the target market.

Arising from the Proposed Diversification, our Group will face competition from various construction companies and such competitive pressures may have downward pressure on the pricing of our contracts. Meanwhile, our Group's limited size as compared to some of our bigger competitors has been a barrier for our Group's participation in mega construction/infrastructure projects which tend to offer higher revenue.

Our Group will continue to take measures to remain competitive in the construction industry by providing quality services, utilising innovative engineering application and seek new opportunities in the construction industry.

5.3 Delays in the completion of a project

The timely completion of construction projects is dependent on various external factors which include, inter-alia, the timely receipt of requisite licenses, permits or regulatory approvals, the work performance of the appointed building contractors, sub-contractors and consultants, availability of financing and availability of building materials, equipment and labour.

Any adverse developments may lead to interruptions or delays in the completion of a project, which may consequently result in cost overruns that affect the Grand-Flo Group's profitability and cash flow. The Group seeks to limit this risk by careful planning, close monitoring of project progress and endeavouring prompt actions to ensure the overall positive progress of the projects.

5.4 Fluctuations in cost of construction materials and availability of skilled labour

Fluctuations in cost of construction materials are inherent risks in the property and construction sectors. Higher cost of construction and building materials such as steel bars, cement, marbles, tiles and sanitary wares will affect the profit margin of property developers and contractors. In the event, Grand-Flo increases the selling price of its future development properties as a result of any upward revision to the cost of construction, demand for properties may be adversely affected.

In view of this, Grand-Flo will continue to monitor carefully the demand for the type of properties and affordability of potential buyers for such properties before commencing the development of the properties.

The construction industry in Malaysia also faces a shortage of skilled labour. The shortage is due to the low participation of Malaysians within the sector, restrictions on foreign workers, and has been exacerbated in recent years by the increased demand for construction workers for other large infrastructure projects.

5.5 Dependence on key management personnel

The Group's success in the construction business depends largely on the abilities, skills, experiences, competencies and continued efforts of its key management of Grandcon, as disclosed in **Section 2.2.2** of this announcement. The loss of any key management personnel without suitable and timely replacement, or the inability to attract and retain other qualified personnel, may adversely affect the Group's ability to compete effectively in the construction industry.

The Group will continuously adopt appropriate approaches, including incentives and competitive remuneration packages, in order to retain the key management personnel. Further, CCH, who is a key management personnel of Grandcon, is also an executive director and major shareholder of Grand-Flo. Further, to avoid over dependence on any key management personnel, the Group will strive to attract qualified and experienced personnel to expand the property development and construction team, which in turn will help ensure the continuity and competency of the property development and construction segment.

5.6 Sustainability of order book

The revenue for the construction segment is largely dependent on the sustainability of our accrued order book, which is in turn affected by the business and economic environment. Depending on the business and economic environment, customers may cancel or delay their projects, which in turn, could adversely affect our Group's revenue.

However, our Group will actively participate in tendering of new projects and also focus to deliver quality products to its existing clients to maintain and enhance the reputation of our Group.

5.7 Completion risk in relation to the Proposed Acquisition

The Proposed Acquisition is subject to the terms and conditions of the SSA. There is no assurance that the Proposed Acquisition will not be exposed to risks such as inability to fulfil the terms and conditions and/or obtain approvals from relevant authorities.

In addition to the risk of non-completion, the Proposed Acquisition may be aborted in the event that the SSA is terminated as a result of any breach or default attributable to any of the Parties. However, the Company will take reasonable steps that are within its control to ensure that the Conditions Precedent relating to the SSA are fulfilled by the stipulated date(s).

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6. EFFECTS OF THE PROPOSALS

6.1 Share capital and shareholding of substantial shareholders

The Proposals will not have any effect on the share capital and shareholdings of substantial shareholders of Grand-Flo as it does not involve any issuance of new shares by Grand-Flo.

6.2 NA per share and gearing

The Proposed Diversification is not expected to have any material effect on the consolidated NA per share and gearing of Grand-Flo for FYE 31 December 2018.

The proforma effects of the Proposed Acquisition on the NA and the gearing position of Grand-Flo based on its latest audited consolidated financial statements as at 31 December 2017, assuming that the Proposed Acquisition was completed on that date are set out below:-

	Audited as at 31 December 2017 (RM'000)	Pro forma I After the Proposed Acquisition (RM'000)
Share capital	62,850	62,850
Reserves	4,505	4,505
Retained earnings	55,633	(2) 54,833
NA	122,988	122,188
Minority interest	37,428	(2) 15,002
Total equity	160,416	137,190
No. of shares issued ('000)	(1) 483,116	(1) 483,116
NA per share (RM)	0.25	0.25
Total borrowings	6,310	6,310
Gearing (times)	0.05	0.05
Fixed deposit, cash and bank balances (RM'000)	31,994	(3) 10,094

Notes:-

- (1) Including 9,198,000 shares held as treasury shares as at the LPD.
- (2) After deducting the estimated expenses of RM800,000 for the Proposals and adjustment made for Grand-Flo's non-controlling interest of 49.9996% of RM22.42 million (including Minority Interests' RNCPS of RM12,999,896).
- (3) After deducting the Purchase Consideration of RM21.9 million for the Proposed Acquisition to be satisfied via cash.

6.3 Earnings and earnings per share (“EPS”)

The Proposed Diversification is not expected to have any immediate material impact on the Group’s earnings for the FYE 31 December 2018. However, the Proposed Diversification is expected to contribute positively to the earnings of the Group for the future financial years as more construction projects are tendered and secured.

For illustrative purposes, the effects of the Proposed Acquisition on the earnings and EPS of the Grand-Flo Group, assuming that the Proposed Acquisition had been effected at the beginning of the FYE 31 December 2017 are set out below:

FYE 31 December 2017	(RM’000)
PAT attributable to the owner of Grand-Flo	13,189
Add: Profit arising from the additional 49.9996% equity interest in ISB	135
Less: Estimated expenses	(800)
Proforma PAT	12,524
No. of shares issued (‘000)	* 473,918
EPS (sen)	2.64

Note:-

* Excluding 9,198,000 shares held as treasury shares as at the LPD.

6.4 Convertible securities

As at the LPD, Grand-Flo does not have any outstanding convertible securities.

7. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Listing Requirements is 17.81% respectively, based on the latest audited financial statements of Grand-Flo for the FYE 31 December 2017.

8. APPROVALS REQUIRED

The Proposals are subject to the approvals of the following:-

- (a) the shareholders of Grand-Flo at an extraordinary general meeting to be convened; and
- (b) any other relevant authorities and/or parties, if required.

The Proposals are not inter-conditional. In addition, the Proposals are not conditional upon any other corporate exercise undertaken or to be undertaken by the Company.

9. INTEREST OF DIRECTORS AND MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

Save as disclosed below, none of the directors, major shareholders of Grand-Flo and/or persons connected to them have any interest, whether direct or indirect, in the Proposals:-

Name	Directorship / shareholdings in Grand-Flo	Interests
CCH	Executive Director and substantial shareholder	CCH is deemed interested in the Proposed Acquisition as he is the Vendor.
CPY	Shareholder	CPY is the spouse of CCH and therefore, a person connected with CCH.

As at the LPD, the direct and indirect interests of CCH in Grand-Flo is set out below:-

	Direct		Indirect	
	No. of Grand-Flo Shares	(%)	No. of Grand-Flo Shares	(%)
CCH	86,765,000	18.31	412,165	0.09
CPY	412,165	0.09	86,765,000	18.31

Accordingly, CCH has abstained and will continue to abstain from Board deliberations and voting in respect of the Proposed Acquisition. He shall also abstain from voting in respect of his direct and indirect shareholdings in Grand-Flo on the ordinary resolution pertaining to the Proposed Acquisition at the EGM to be convened.

In addition, CCH will also undertake to ensure that all persons connected to him will abstain from voting in respect of their respective direct and/or indirect shareholdings in Grand-Flo on the ordinary resolution pertaining to the Proposed Acquisition at the EGM to be convened.

10. TRANSACTIONS WITH THE VENDOR FOR THE PAST 12 MONTHS

Save for the Proposed Acquisition as highlighted above as well as the recurrent related party transactions set out in the circular to shareholders dated 28 April 2017 and approved at the Company's 14th annual general meeting held on 30 May 2017, there have been no other transactions entered into between the Company and the Vendor during the 12 months preceding the date of this announcement.

11. ADVISERS

UOBKH has been appointed by the Company as the Adviser for the Proposals.

In view that the Proposed Acquisition is deemed as a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements, UHY Advisory (KL) Sdn Bhd ("**UHY**") has been appointed as the Independent Adviser to advise the non-interested directors and non-interested shareholders of the Company in respect of the Proposed Acquisition with:-

- (i) an opinion as to whether the Proposed Acquisition is fair and reasonable and whether the Proposed Acquisition is detrimental to the non-interested shareholders of the Company; and
- (ii) a recommendation as to whether non-interested shareholders of the Company should vote for or against the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

12. STATEMENT BY AUDIT COMMITTEE

The Audit Committee of Grand-Flo, in arriving at their views, have sought the independent advice from UHY, the appointed Independent Adviser for the Proposed Acquisition.

After taking into consideration the evaluation of the Independent Adviser as well as the terms and conditions of the SSA, the rationale for the Proposed Acquisition, the basis of arriving at the Purchase Consideration as well as the prospects of the Group, the Audit Committee of Grand-Flo is of the opinion that the Proposed Acquisition:-

- (i) is in the best interest of Grand-Flo;
- (ii) is fair, reasonable and on normal commercial terms; and
- (iii) is not detrimental to the interest of the non-interested shareholders of Grand-Flo.

13. DIRECTORS' STATEMENT

The Board, save for the interested Director, CCH, after considering all aspects of the Proposals, including but not limited to the rationale, valuation, salient terms of the SSA, prospects and risk factors, the financial effects of the Proposals, the evaluation of the Independent Adviser on the Proposed Acquisition and the view of UOBKH, being the appointed Adviser, is of the opinion that the Proposals:-

- (i) are in the best interest of Grand-Flo;
- (ii) are fair, reasonable and on normal commercial terms; and
- (iii) are not detrimental to the interest of the non-interested shareholders of Grand-Flo.

14. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposals to be completed by the second half of 2018.

15. APPLICATION TO RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the applications to the relevant authorities for the Proposals are expected to be submitted within 1 month from the date of this announcement.

16. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection at the registered office of Grand-Flo at Third Floor No 79 (Room A), Jalan SS21/60, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan from Monday to Friday (except public holidays) for a period of 3 months commencing from the date of this announcement:-

- (i) the SSA; and
- (ii) the Valuation Report.

This announcement is dated 10 April 2018.