

Type : Announcement
Subject : GRAND-FLO SOLUTION BERHAD (“GRAND-FLO” OR THE “COMPANY”)

PROPOSED ACQUISITION BY GRAND-FLO OF 369,000 ORDINARY SHARES OF RM1.00 EACH IN LABELS NETWORK SDN BHD (“LNSB”), A 55%-OWNED SUBSIDIARY OF GRAND-FLO, REPRESENTING THE REMAINING 45% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF LNSB NOT ALREADY HELD BY GRAND-FLO AT A PURCHASE CONSIDERATION OF RM3,600,000 TO BE WHOLLY SETTLED BY WAY OF ISSUANCE OF 9,230,769 NEW ORDINARY SHARES OF RM0.10 EACH IN GRAND-FLO (“CONSIDERATION SHARES”) AT AN ISSUE PRICE OF RM0.39 PER CONSIDERATION SHARE (“PROPOSED ACQUISITION”)

Contents :

1. INTRODUCTION

On behalf of the Board of Directors of Grand-Flo (“**Board**”), Kenanga Investment Bank Berhad (“**KIBB**”) is pleased to announce that Grand-Flo had on 18 January 2010 entered into a conditional shares purchase agreement (“**SPA**”) with Wan Kok Weng and Chan Pik Khew (collectively referred to hereon as the “**Vendors**”) to acquire 369,000 ordinary shares of RM1.00 each in Labels Network Sdn Bhd (“**Sale Shares**”), a 55%-owned subsidiary of Grand-Flo, representing the remaining 45% equity interest in LNSB not already held by Grand-Flo.

Under the terms of the SPA, the Sale Shares shall be acquired for a purchase consideration of RM3,600,000 or approximately RM9.76 per Sale Share (“**Purchase Consideration**”) to be wholly settled by way of issuance and allotment of 9,230,769 new ordinary shares of RM0.10 each in Grand-Flo to the Vendors (“**Consideration Shares**”) at an issue price of RM0.39 (“**Issue Price**”) per Consideration Share.

Upon completion of the Proposed Acquisition, LNSB will be a wholly-owned subsidiary of Grand-Flo.

2. DETAILS OF THE PROPOSED ACQUISITION

Subject to the terms and conditions as set out in the SPA, the Vendors agree to sell and Grand-Flo agrees to purchase, the Sale Shares, free from all pledges or liens or any other encumbrances and with all rights now or hereinafter attaching thereto including but without limitation to all bonuses, rights, dividends and distributions declared paid or made in respect thereof as from the date of the SPA, for the Purchase Consideration.

The Proposed Acquisition is deemed a related party transaction by virtue of Wan Kok Weng, being one of the Vendors, is also an Executive Director and shareholder of Grand-Flo and Chan Pik Khew, being one of the Vendors, is also the Alternate Director to Wan Kok Weng in Grand-Flo and has indirect interest in Grand-Flo by virtue of her spouse, Wan Kok Weng (“**Related Party Transaction**”).

Pursuant to Section 10.08 (2), Part E of Chapter 10 of the Bursa Malaysia Securities Berhad’s (“**Bursa Securities**”) ACE Market Listing Requirements (“**AMLR**”), the percentage ratios pertaining to the Related Party Transaction exceed 5%. In compliance with the AMLR, Grand-Flo is required to seek shareholders’ approval and appoint an independent adviser in respect of the Related Party Transaction.

As at the date of the SPA, the shareholdings of the Vendors in LNSB are set out as follow:-

Vendors	Direct		Indirect	
	No. of ordinary shares in LNSB	%	No. of ordinary shares in LNSB	%
Wan Kok Weng	184,500	22.50	184,500 ⁽¹⁾	22.50
Chan Pik Khew	184,500	22.50	184,500 ⁽²⁾	22.50
Total	369,000	45.00		

Notes:-

- (1) Deemed interested by virtue of his spouse's, Ms. Chan Pik Khew's interest in LNSB pursuant to Section 6A of the Companies Act, 1965 ("Act").
- (2) Deemed interested by virtue of her spouse's, Mr. Wan Kok Weng's interest in LNSB pursuant to Section 6A of the Act.

Upon the completion of the Proposed Acquisition, the Consideration Shares will be allotted to the Vendors in the proportion as set out below:-

Vendors	No. of Consideration Shares to be allotted	Value of the Consideration Shares* (RM)	%^
Wan Kok Weng	4,615,385	1,800,000	3.18
Chan Pik Khew	4,615,384	1,800,000	3.18
Total	9,230,769	3,600,000	6.36

Note:-

* Based on the Issue Price.

^ Based on the enlarged issued and paid-up share capital of Grand-Flo upon the completion of the Proposed Acquisition.

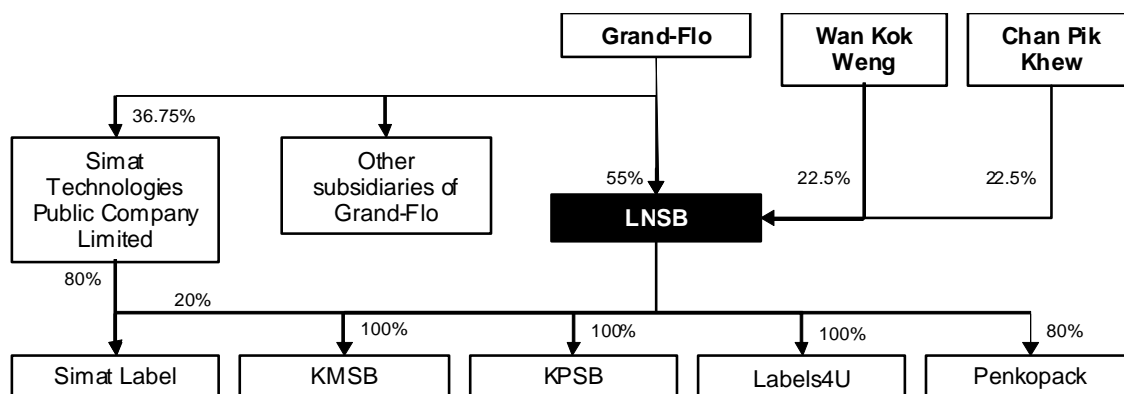
2.1 Information on LNSB

LNSB was incorporated in Malaysia on 25 April 2001 under the Act as a private limited company. LNSB is principally involved in the business of marketing, promoting and selling self-adhesive label stickers.

As at the date of this announcement, the authorised share capital of LNSB is RM1,000,000, comprising 1,000,000 ordinary shares of RM1.00 each ("LNSB Shares"), and the issued and paid-up share capital of LNSB is RM820,000, comprising 820,000 LNSB Shares.

As at the date of this announcement, the corporate and shareholding structure of LNSB is set out as follows:-

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LNSB has four (4) subsidiaries, namely Kopacklabels Press Sdn Bhd (“**KPSB**”), Kopacklabels (M) Sdn Bhd (“**KMSB**”), Penkopack Sdn Bhd (“**Penkopack**”) and Labels4U Automation Sdn Bhd (“**Labels4U**”), and an associated joint venture company, Simat Label Co. Ltd. (“**Simat Label**”). LNSB and its subsidiaries and associate company are collectively referred to hereon as the “**LNSB Group**”.

On 18 December 2007, Grand-Flo acquired 55,000 LNSB Shares, representing 55% of LNSB’s then issued and paid-up share capital of LNSB, from the Vendors for a purchase consideration of RM3,905,000 settled by way of cash (“**Initial Acquisition**”). As at the date of the Initial Acquisition, LNSB only had one (1) subsidiary, being KPSB.

Subsequent to the Initial Acquisition, LNSB’s issued and paid-up share capital was increased to RM660,000, by issuance of an additional 560,000 LNSB Shares on 24 September 2008, and RM820,000, by issuance of an additional 160,000 LNSB Shares on 3 December 2008. Grand-Flo and the Vendors had subscribed for the additional LNSB Shares in cash according to their respective shareholding proportions.

As at the date of this announcement, the directors of LNSB are Wan Kok Weng, Tan Bak Hong and Cheng Ping Liong. The shareholders of LNSB as at the date of this announcement are Grand-Flo (55.0%), Wan Kok Weng (22.5%) and Chan Pik Khew (22.5%)

For the financial year ended (“**FYE**”) 31 December 2008, LNSB, on a company level, recorded an audited profit after tax (“**PAT**”) of RM580,434 and an audited net assets (“**NA**”) of RM3,199,982. The LNSB Group, on a consolidated basis, had achieved an unaudited consolidated PAT of RM1,238,538 and an unaudited consolidated NA of RM3,878,441 for the FYE 31 December 2008.

2.1.1 Information on KPSB

KPSB, a wholly-owned subsidiary of LNSB, was incorporated on 2 December 2002 in Malaysia under the Act as a private limited company with an authorised share capital of RM100,000, comprising 100,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up as at the date of this announcement. KPSB is principally involved in adhesive labels and stickers printing.

As at the date of this announcement, the directors of KPSB are Chan Pik Khew, Cheng Ping Liong and Tan Bak Hong.

For the FYE 31 December 2008, KPSB recorded an audited PAT of RM646,801 and an audited NA of RM732,143.

On 1 December 2007, KPSB had taken over the self-adhesive label stickers manufacturing business from a partnership trading under the name Kopack Enterprise.

LNSB had acquired the entire issued and paid-up share capital of KPSB on 17 December 2007.

2.1.2 Information on Penkopack

Penkopack was incorporated on 14 June 2000 in Malaysia under the Act as a private limited company with an authorised share capital of RM500,000, comprising 500,000 ordinary shares of RM1.00 each, of which 300,000 ordinary shares of RM1.00 each are fully issued and paid-up. Penkopack is principally involved in adhesive labels and stickers printing.

As at the date of this announcement, the directors of Penkopack are Chan Pik Khew, Tan Huai Wei and Tan Bak Leng.

For the FYE 31 December 2008, Penkopack recorded an audited PAT of RM232,965 and an audited NA of RM879,165.

On 14 August 2008, LNSB had acquired 80,000 ordinary shares of RM1.00 each in Penkopack from Chan Pik Khew, Tan Huai Wei and Yap Ten Song, representing 80% of the issued and paid-up share capital of Penkopack for a purchase consideration of RM1,120,000 settled by way of cash, resulting in Penkopack becoming a 80%-owned subsidiary of LNSB. As at the date of this announcement, the remaining 20% equity interest in Penkopack, not held by LNSB, are held by Tan Huai Wei (15.0%) and Yap Ten Song (5.0%).

2.1.3 Information on KMSB

KMSB, a wholly-owned subsidiary of LNSB, was incorporated on 19 March 2008 under the Act with an authorised issued and paid up share capital of RM100,000, comprising 100,000 ordinary shares of RM1.00 each, of which RM2.00, comprising 2 ordinary shares of RM1.00 each, are fully issued and paid-up, with LNSB holding 1 ordinary share of RM1.00 representing 50% equity interest. Upon the acquisition of the other 1 ordinary share of RM1.00 representing the remaining 50% equity interest in KMSB by LNSB from Tan Bak Hong, the Executive Director of Grand-Flo, KMSB became a wholly-owned subsidiary of LNSB. On 9 December 2009, KMSB had increased its issued and paid-up share capital to RM100,000, comprising 100,000 ordinary shares of RM1.00 each, by issuing 99,998 ordinary shares of RM1.00 each to LNSB.

As at the date of this announcement, the directors of KMSB are Tan Bak Hong, Cheng Ping Liong and Wan Kok Weng.

As at the date of this announcement, KMSB is presently dormant and its intended principal activities are to carry on the business of manufacturing for printing of adhesive labels and stickers.

2.1.4 Information on Labels4U

Labels4U, a wholly-owned subsidiary of LNSB, was incorporated on 29 August 2008 under the Act with an authorised issued and paid up share capital of RM100,000, comprising 100,000 ordinary shares of RM1.00 each, of which RM2.00, comprising 2 ordinary shares of RM1.00 each, are fully issued and paid-up, with LNSB holding 1 ordinary share of RM1.00 representing 50% equity interest. Upon the acquisition of the other 1 ordinary share of RM1.00 representing the remaining 50% equity interest in Labels4U by LNSB from Tan Bak Hong, the Executive Director of Grand-Flo, Labels4U became a wholly-owned subsidiary of LNSB.

As at the date of this announcement, the directors of Labels4U are Tan Bak Hong, Cheng Ping Liong and Wan Kok Weng.

As at the date of this announcement, Labels4U is presently dormant and its intended principal activities are to carry on the business as manufacturers and dealers in labeling machines, adhesive labels and stickers printers.

2.1.5 Information on Simat Label

Simat Label was incorporated on 9 April 2008 in Thailand as a limited liability company under the laws of Thailand, resulting from the joint venture agreement with Simat Technologies Public Company Limited (“**Simat**”), a 36.75%-owned associate company of Grand-Flo. As at the date of this announcement, Simat Label has a registered share capital of THB24,000,000 (approximately RM2,426,203 based on the exchange rate of THB9.892:RM1.00 as at 15 January 2010, the last market day prior to the date of this announcement), comprising 2,400,000 ordinary shares of THB10 each.

Simat Label is principally involved in the manufacturing and distribution of barcode labels and radio frequency identification label tag products or components.

For the FYE 31 December 2008, Simat Label recorded an audited loss after tax of THB5,279,494 (equivalent to approximately RM547,438 based on the average exchange rate of THB9.644:RM1.00 for the FYE 31 December 2008) and an audited NA of THB6,720,506 (equivalent to approximately RM661,662 based on the exchange rate of THB10.157:RM1.00 as at 31 December 2008).

Upon incorporation, LNSB held 40% equity interest in Simat Label with Simat holding the remaining 60% equity interest. On 15 May 2009, Simat had subscribed for an additional 12,000,000 new ordinary shares in Simat Label, resulting in the dilution of the shareholdings of LNSB in Simat Label from 40% to 20%. Pursuant to the abovementioned subscription of new shares, Simat currently holds 80% of the registered share capital of Simat Label while the remaining shareholding of 20% is held by LNSB.

2.2 Basis and justification of arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis after taking into account the historical and current earnings track record including the future earnings potential of the LNSB Group.

Based on the unaudited consolidated PAT of LNSB of RM1,238,538 or approximately RM1.51 per LNSB Share for the FYE 31 December 2008, the Purchase Consideration represents a price earnings ("**PE**") ratio of approximately 6.5 times. Based on the annualised unaudited consolidated PAT of LNSB of RM2,193,932 or approximately RM2.68 per LNSB Share for the FYE 31 December 2009, the Purchase Consideration represents a PE ratio of approximately 3.6 times.

The Purchase Consideration is proposed to be settled wholly by the issuance of the Consideration Shares to the Vendors. The issuance of the Consideration Shares provides an opportunity for the Vendors to continue to participate in the growth of LNSB as a shareholder, albeit indirectly, through the larger group of Grand-Flo and its subsidiaries ("**Grand-Flo Group**"). Furthermore, the issuance of the Consideration Shares to satisfy the Purchase Consideration is also expected to conserve cash for other working capital purposes. Further details in connection with the rationale for the Proposed Acquisition are set out in Section 4 of this announcement.

2.3 Basis of arriving at the Issue Price

The Issue Price was arrived at after taking into consideration and based on the five (5) market days weighted average market price of Grand-Flo Shares up to and including 15 January 2010, being the market day immediately prior to the date of signing of the SPA, of RM0.39.

The Issue Price was determined based on the prevailing market price of the Grand-Flo Shares. For the FYE 31 December 2008, Grand-Flo has registered an audited consolidated loss attributable to ordinary equity holders of RM348,784 or approximately 0.28 Sen per Grand-Flo Share. Based on the annualised unaudited consolidated profit attributable to ordinary equity holders of Grand-Flo for the nine (9)-months financial period ended ("**FPE**") 30 September 2009 of RM1,605,520 or approximately 1.20 Sen per Grand-Flo Share, the Issue Price represents a PE ratio of approximately 32.5 times.

2.4 Ranking of the Consideration Shares

The Consideration Shares shall upon allotment and issue, rank *pari passu* in all respects with the existing Grand-Flo Shares, save and except that they shall not be entitled to any dividends, rights, allotment and/or other distributions which are declared, made or paid prior to the date of their allotment.

Notwithstanding the abovementioned, under the terms of the SPA and upon completion of the Proposed Acquisition, the holders of the Consideration Shares have agreed that they shall not be entitled to any rights warrant under the proposed rights issue ("**Proposed Rights Issue**") in respect of the Consideration Shares held as detailed in Grand-Flo's announcement dated 18 January 2010.

2.5 Listing of the Consideration Shares

An application will be made to Bursa Securities for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities after obtaining the approval of shareholders of Grand-Flo for the Proposed Acquisition as set out in section 8 of this announcement.

2.6 Liabilities to be Assumed

Save for the liabilities of LNSB incurred in the ordinary course of business, there are no liabilities, including contingent liabilities and guarantees, to be assumed by Grand-Flo arising from the Proposed Acquisition.

It should also be noted that as at the date of this announcement, LNSB is already a 55%-subsidiary of the Company and its interest in LNSB is consolidated into the Company's financial statements.

2.7 Original Cost and Date of Investment

The original cost of investment of the Vendors in LNSB and the dates such investments were made are set out in the table below:-

Vendors	Date of Investment	Number of LNSB Shares	Cost of Investment (RM)
Wan Kok Weng	25 April 2001	1	1.00
	3 September 2002	999	999.00
	17 December 2007	49,000	49,000.00
	31 January 2008	(27,500)*	(27,500.00)
	24 September 2008	126,000	126,000.00
	3 December 2008	36,000	36,000.00
Chan Pik Khew	25 April 2001	1	1.00
	3 September 2002	999	999.00
	17 December 2007	49,000	49,000.00
	31 January 2008	(27,500)*	(27,500.00)
	24 September 2008	126,000	126,000.00
	3 December 2008	36,000	36,000.00

Note:-

* Relates to the disposal of LNSB shares by the Vendors in relation to the Initial Acquisition.

2.8 Transactions with the Vendors

There have been no transactions between the Grand-Flo Group and the Vendors for the preceding twelve (12) months up to the date of this announcement.

3. SALIENT TERMS OF THE PROPOSED ACQUISITION

3.1 Purchase Consideration and Terms

- 3.1.1 The Purchase Consideration shall be satisfied on the Completion Date (as defined in Section 3.4 of this announcement) by way of issuance of the Consideration Shares in favour of the Vendors, credited as fully paid-up and ranking *pari passu* with the existing issued and paid up ordinary shares of Grand-Flo including voting rights and all dividends and distributions that may be declared, as at the date of allotment of the Consideration Shares.
- 3.1.2 In the event of any alteration in the issued and paid-up ordinary share capital structure of Grand-Flo prior to the date of completion of the Proposed Acquisition whether by way of a capitalisation issue, bonus issue or rights issue of ordinary shares, the actual number of Consideration Shares to be issued pursuant to Section 3.1.1 above and the Issue Price shall be adjusted as shall be necessary to give the Vendors the same proportions of the issued capital of Grand-Flo as that to which each of them would be entitled prior to the event giving rise to such adjustment and which shall yield the same consideration value of RM3,600,000.00. Any such adjustments shall be formalised in writing by the parties to the SPA.
- 3.1.3 For the avoidance of doubt, the Proposed Rights Issue shall not have any effect on the number of Consideration Shares to be issued (or be deemed as an alteration event as described in Section 3.1.2 above which will adjust the number of Consideration Shares to be issued and the issue price pursuant to the Proposed Acquisition).

3.2 Conditions Precedent

- 3.2.1 Notwithstanding anything to the contrary contained in the SPA, the completion of the Proposed Acquisition is conditional upon the following conditions being satisfied within a period of six (6) months from the date of the SPA or within such further period as may be mutually agreed upon by the parties to the SPA in writing, namely:
- (i) the approval of the shareholders of Grand-Flo (obtained in an extraordinary general meeting (“EGM”) to be convened) for the acquisition of the Sale Shares, the increase of its authorised share capital (if necessary) and the issuance and allotment of the Consideration Shares to the Vendors in accordance with the terms of the SPA;
 - (ii) the approval-in-principle of Bursa Securities for the listing of and quotation for the Consideration Shares; and
 - (iii) the approval or waiver of any regulatory requirement by any other relevant authorities, if required,
- (collectively “Approvals”).
- 3.2.2 (i) If the Approvals are not obtained upon the expiry of the period stipulated in Section 3.2.1 above or such extension period as may be mutually agreed upon by the parties to the SPA in writing as the case may be; or

- (ii) If the steps to modify the said terms and conditions in connection with the granting of the Approvals are not successful upon the expiration of two (2) months from receiving notice from the party to the SPA to which the said terms and conditions are unacceptable (“**Objecting Party**”); and

then, in the case of (i) any party to the SPA may, or in the case of (ii) above, the Objecting Party may terminate the SPA by giving notice in writing of its intention to terminate the SPA to the other party to the SPA. Following from the aforementioned, the SPA shall be at an end and of no further effect and neither party to the SPA shall have any further claim against the other save for any antecedent breaches.

3.3 Covenants of the Vendors

3.3.1 Each of the Vendors covenants and undertakes with Grand-Flo that for a period of five (5) years from the date of the SPA, without the prior written consent of the Purchaser:

- (i) neither of them will carry on, or be engaged, concerned or interested in carrying on any business within Malaysia as well as in countries that the Grand-Flo Group operates or has a presence in, which is in competition (whether direct or indirect) with the existing business carried on by the LNSB Group as of the date of the SPA;
- (ii) neither of them will disclose or make use of (whether for its own benefits or for the benefits of any third party) any financial or other confidential information, trade secrets, technology or other know-how relating to the business of the LNSB Group; and
- (iii) neither of them will solicit or endeavour to entice away from or discourage from being employed by the LNSB Group any person who was at the relevant time an officer or employee of such company whether or not such person would commit a breach of contract by reason of leaving service.

3.3.2 The Vendors covenant and undertake with Grand-Flo that for a period of five (5) years from the date of the SPA, Wan Kok Weng shall remain employed with LNSB and Chan Pik Khew shall remain employed with KPSB, and that each of them shall continue to observe all the terms and conditions governing their respective employment with LNSB and KPSB.

3.3.3 Each of the Vendors further covenants and agrees that all intellectual property rights over all technology, design, know-how, trade secrets, software, trademarks, trade names, drawings, concepts, prototypes, plan, market research information, marketing plan, and all other materials, knowledge and know-how of a proprietary nature and all associated documents thereto acquired, developed or enhanced for or in anyway connected to the businesses of the LNSB Group belong to and vest absolutely in the LNSB Group.

3.3.4 Each of the Vendors also covenants and agrees that the Consideration Shares shall be subject to a voluntary moratorium from the time of issuance and allotment until the expiry of a period of one (1) year thereafter. The Vendors covenant and undertake with Grand-Flo that during the voluntary moratorium period aforesaid, each of them shall hold and remain as the registered and beneficial owner of such Consideration Shares and not sell, dispose of, transfer, pledge, encumber or deal with the Consideration Shares in any manner whatsoever.

3.4 Completion

3.4.1 Unless otherwise agreed by the parties to the SPA in writing, completion of the Proposed Acquisition shall take place at any time within two (2) months from the unconditional date (the actual date of which shall be determined at the sole discretion of Grand-Flo) or on such later date as the parties to the SPA shall mutually agree in writing (“**Completion Date**”) when:

- (i) Grand-Flo shall:
 - (a) cause to be issued the Consideration Shares in favour of the Vendors and deliver the following to the Vendors:-
 - (A) an irrevocable letter of undertaking from the company secretary of Grand-Flo to deliver to the Vendors within three (3) business days from the Completion Date the original Form 24 in respect of the issuance and allotment of the Consideration Shares duly executed by Grand-Flo’s company secretary for purposes of issuing and allotting the Consideration Shares in favour of the Vendors; and
 - (B) an irrevocable letter of undertaking from the share registrar of Grand-Flo to deposit and credit within three (3) business days from the Completion Date the Consideration Shares into the Central Depository System Account of the Vendors maintained with the relevant authorised depository agent in accordance with the rules of Bursa Malaysia Depository Sdn Bhd; and thereafter,
 - (ii) Grand-Flo’s solicitors shall release the documents held in trust as stakeholder to Grand-Flo, whereupon Grand-Flo shall be entitled to date and effect all the relevant documents to register the transfer of the Sale Shares in its name, whereupon the shareholders agreement dated 6 March 2008 entered into between Grand-Flo and the Vendors shall immediately terminate and shall cease to be of any force or effect.

3.4.2 Grand-Flo undertakes and warrants that it shall immediately or as soon as practicable proceed diligently and expeditiously to apply to Bursa Securities for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities.

3.5 Termination

3.5.1 In addition but not in derogation to other provisions of the SPA, on the occurrence of any breach of the terms and conditions of the SPA, appointment of a receiver/special administrator, insolvency/bankruptcy, arrangement, composition or compromise with creditors, winding up or dissolution, or cessation of all or a substantial portion of business with respect to a party (“**Defaulting Party**”), the other party (“**Non-Defaulting Party**”) may give notice in writing to the Defaulting Party specifying the relevant event or events and requiring the Defaulting Party to remedy the same (if capable of remedy) within fourteen (14) days of the receipt of such notice.

- 3.5.2 The Vendors and the Purchaser shall, within seven (7) days after notice has been given, meet to discuss the event or events giving rise to the notice with a view to the Defaulting Party remedying the event. In the event that the breach is not remedied within fourteen (14) days of the Non-Defaulting Party having given notice, the SPA shall be terminated forthwith without any requirement or need for the Non-Defaulting Party to give any further notice or reasons therefor.
- 3.5.3 Upon the termination of the SPA, the SPA shall be null and void and none of the parties to the SPA shall have any claim against each other save for any antecedent breach.
- 3.5.4 In the alternative, any party to the SPA shall be entitled to the rights of specific performance against the other under the provisions of the SPA and in the event of any party to the SPA exercising its right to specific performance of the SPA, an alternative remedy of monetary compensation shall not be regarded as sufficient compensation for the other party's default in the performance of the terms and conditions of the SPA.

4. RATIONALE FOR THE PROPOSED ACQUISITION

Following from the Initial Acquisition, the LNSB Group has demonstrated a strong and resilient profit track record despite the global economic downturn. Specifically, based on the profit guarantee of RM1,000,000 in respect of FYE 31 December 2008, given by the Vendors pursuant to the Initial Acquisition, LNSB had managed to exceed the aforesaid profit guarantee by 23.85%. Furthermore, for the FYE 31 December 2008, the labels manufacturing business segment of Grand-Flo had contributed positively to the consolidated PAT of Grand-Flo while the other major business segment of enterprise data collection and collation system of Grand-Flo was loss-making.

In view of the positive contribution of the LNSB Group to Grand-Flo, the Proposed Acquisition therefore represents an opportunity for Grand-Flo to fully consolidate its interests in LNSB and to further enhance the returns attributable to Grand-Flo's equity holders at an attractive proposition.

The Purchase Consideration is proposed to be settled wholly by the issuance of the Consideration Shares to the Vendors. The issuance of the Consideration Shares provides an opportunity for the Vendors to continue to participate in the growth of LNSB as a shareholder, albeit indirectly, through the larger Grand-Flo Group. Furthermore, the issuance of the Consideration Shares to satisfy the Purchase Consideration is also expected to conserve the cash for other working capital purposes. The Proposed Acquisition is expected to be earnings per share ("**EPS**") accretive, as illustrated in the effects on the EPS attributable to the ordinary shareholders of Grand-Flo as set out in Section 7.3 of this announcement.

5. INDUSTRY OVERVIEWS AND PROSPECTS

5.1 Overview and outlook of the Malaysian economy

With the global economy slowly recovering, the Asian Development Bank ("**ADB**"), an international development finance institution, expects Malaysia's economy to return to growth in 2010 and has forecasted Malaysia's gross domestic product ("**GDP**") to grow by 4.5% in 2010.

ADB expects Malaysia to contract 2.5% in 2009 after registering -5.1% in the first half of the year and -1.2% in the third quarter.

(Source:- "Asia Economic Monitor", Asian Development Bank, 14 December 2009)

With economic indicators showing signs of improvement, the Malaysian Institute of Economic Research (“**MIER**”) has expected the economy to exit out of recession in the fourth quarter of 2009, as evidenced by the positive trend in the Industrial Production Index which means increased industrial activity.

According to MIER, this was also supported by the effects of the larger public infrastructure expenditure, manufacturing turnaround, improved service trade and higher domestic spending.

(Source:- MER, “MIER: GDP for 2010 to grow by 3.7%”, Bernama, 1 December 2009)

UBS Investment Research (“**UBS**”) has also opined that Malaysia would emerge as one of the leaders of growth in Southeast Asia 2010 and that the growth momentum was evident with government support expected to continue until the first-half of 2010. The growth can be achieved with the government's continuous support, good external and consumer demand.

However, Malaysia will be able to rebound vigorously in 2010 according to UBS because the pressure of bank lending and small businesses on economic recovery are confined to Europe and the US and will not affect the economy in Malaysia. Without these problems, strong growth will come through.

(Source:- “UBS sees 6% Malaysia Growth in 2010”, Business Times, 25 November 2009)

5.2 Overview and outlook of the Malaysian manufacturing sector

Manufacturing output contracted 14.8% in the first eight months of 2009 on sharp deterioration in export and domestic oriented industries. Sales value of manufactured products declined 24.7% to RM299.8 billion.

However, there are signs that the declining trend is bottoming out. On a month-on-month basis, production and sales of manufacturing products have been improving since March 2009. This is further reinforced by government stimulus packages spending as well as better consumer and business sentiment.

Domestic oriented industries fell 9.8% year-to-end of August 2009.

Export-oriented industries plunged 19% over the same period, with significant contraction in electrical and electronics (“**E&E**”), machinery and equipment, as well as wood products.

Notwithstanding this, the prospect for export oriented industries has improved in the second half of 2009.

Signs of recovery have emerged for domestic oriented industries, reflected by improved production in construction related and resources-based industries, as well as transport equipment sub-sector.

Among key segments, production of E&E products as a group contracted 30.3% during the first eight months of 2009, plastic products were down 9.1%, while construction material output declined 11.2%.

Petroleum product output grew 0.2% during the same period, and the same pace of growth was shown in the food products category. The rubber product category saw a 10.1% drop in production, but rubber glove sales recorded a 6.4% growth.

(Source:- "Decline in Manufacturing Sector seen to be Bottoming Out", StarBiz, 23 October 2009)

5.3 Outlook of the labels and sticker industry

According to the Fédération Internationale des fabricants et transformateurs d'Adhésifs et Thermocollants sur papiers et autres supports ("**FINAT**"), the worldwide association for manufacturers of self-adhesive labels and related products and services based in The Hague, The Netherlands, the first signs of recovery in the global self-adhesive label industry probably began early 2008, but a full rebound in the industry would not be immediately seen.

The latest FINAT climate index indicated that confidence is returning to the label industry as there have been continued, but prudent signs of recovery in the third quarter of 2009. The overall volume decrease on an annual basis, compared to Q3 2008, was limited to 1.7%, for the year to October 2009. The industry is back to the -5% to -10% range, after a disastrous double digit volume drop at the turn of 2009.

According to FINAT, more than 40% of printers were expecting to invest in new equipment in 2010, which will result in increased growth over the next five years.

The banking crisis which enveloped the world in the second half of 2008 struck the self-adhesive industry in the third quarter of that year. Until then producers had seen the continuing growth pattern which it had enjoyed since its large-scale expansion began in the 1970s, but the sharp cut-backs in all areas produced a dramatic decline in demand, resulting in its first-ever loss of volume in 2008 compared with 2007 – albeit by only 1% (another indication of the strength of the sector). This slowdown is expected to show a further decline of 2% in 2009, followed by a static period 2010 and a return to modest growth from 2011. Even though annual growth rates over the next five years – forecasted at 0.5% to 1%, closely following the growth in GDP – seem small, that expansion on 2008's output of 5.3 billion square meters is still a considerable amount of label materials used.

Futuristic labels, such as those containing micro-chips that 'talk' to stock control computers etc, have yet to be widely used, but they contain fascinating prospects for the future as the cost of their electronics drop to affordable levels.

According to FINAT, label printers, particularly in Europe, see digital printing as the future and machine manufacturers are eager to meet the demand – 30 companies will be producing digital presses worldwide by 2010. This represents great opportunities in the labels industry for printers and their customers who are prepared to explore new printing techniques, effects and materials.

(Source:- "Self-adhesive labels have 'bright future' says FINAT president", Labels & Labeling, Tarsus Publishing Inc, 18 November 2009)

Premised on the above, the Board is of the opinion that the increased interest and involvement of the Grand-Flo Group in the labels manufacturing business will enable the Group to benefit as the Malaysian economy and labels industry begins to show signs of recovery from the global economic downturn.

6. RISK FACTORS

As LNSB is currently an operating 55% subsidiary of Grand-Flo, the Board does not foresee any additional risk that LNSB is not already exposed to pertaining to the increase in its shareholdings in LNSB in connection with the Proposed Acquisition.

7. EFFECTS OF THE PROPOSED ACQUISITION

7.1 Share capital

The effects of the Proposed Acquisition on the issued and paid-up share capital of Grand-Flo as at 31 December 2009 (being the latest practicable date in respect of the Company's shareholding information) are as follows:-

	No. of Grand-Flo Shares	RM
Issued and paid-up share capital as at 31 December 2009	135,854,709	13,585,471
Consideration Shares to be issued	9,230,769	923,077
Enlarged issued and paid-up share capital	145,085,478	14,508,548

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7.2 Substantial Shareholders

The following sets out the effects of the Proposed Acquisition on the shareholdings of the substantial shareholders of Grand-Flo (holding 5% or more equity interest) as at 31 December 2009 (being the latest practicable date in respect of the Company's shareholding information):-

Shareholders	Existing as at 31 December 2009 ⁽¹⁾				Proforma – After the Completion of the Proposed Acquisition ⁽¹⁾			
	Direct		Indirect		Direct		Indirect	
	No. of Grand-Flo Shares	%	No. of Grand-Flo Shares	%	No. of Grand-Flo Shares	%	No. of Grand-Flo Shares	%
Grand-Flo Corporation Sdn Bhd	23,559,990	17.35	-	-	23,559,990	16.24	-	-
Tan Bak Hong	4,824,736	3.55	23,559,990 ⁽²⁾	17.35	4,824,736	3.33	23,559,990 ⁽²⁾	16.24
Tan Bak Leng	11,480,660	8.45	-	-	11,480,660	7.91	-	-
Tan Chuan Hock	4,200,000	3.09	4,000,000 ⁽³⁾	2.94	4,200,000	2.90	4,000,000 ⁽³⁾	2.76
Yap Li Li	-	-	28,384,726 ⁽⁴⁾	20.90	-	-	28,384,726 ⁽⁴⁾	19.57
CL Solutions Services Limited (“CLSS”)	11,398,176	8.39	-	-	11,398,176	7.86	-	-
CL International Holdings Limited (“CLIHL”)	-	-	11,398,176 ⁽⁵⁾	8.39	-	-	11,398,176 ⁽⁵⁾	7.86
Leung Fung Shan	-	-	11,398,176 ⁽⁶⁾	8.39	-	-	11,398,176 ⁽⁶⁾	7.86
Wan Kok Weng	1,500,000	1.10	-	-	6,115,385	4.22	4,615,384 ⁽⁸⁾	3.18
Chan Pik Khew	-	-	1,500,000 ⁽⁷⁾	1.10	4,615,384	3.18	6,115,385 ⁽⁷⁾	4.22

Notes:-

(1) Excluding the 24,800 Grand-Flo Shares held by Grand-Flo as treasury shares as at the date of this announcement.

(2) Deemed interested by virtue of his interest in Grand-Flo Corporation Sdn Bhd pursuant to Section 6A of the Act.

(3) Deemed interested by virtue of his interest in AI Capital Sdn Bhd pursuant to Section 6A of the Act.

(4) Deemed interested by virtue of her spouse, Mr. Tan Bak Hong's interest in Grand-Flo and by virtue of her and Mr. Tan Bak Hong's interest in Grand-Flo Corporation Sdn Bhd pursuant to Section 6A of the Act.

(5) Deemed interested by virtue of CLIHL's interest in CLSS pursuant to Section 6A of the Act.

(6) Deemed interested by virtue of her interest in CLSS pursuant to Section 6A of the Act.

(7) Deemed interested by virtue of her spouse's, Mr. Wan Kok Weng's interest in Grand-Flo pursuant to Section 6A of the Act.

(8) Deemed interest by virtue of his spouse's, Ms. Chan Pik Khew's interest in Grand-Flo pursuant to Section 6A of the Act.

The completion of the Proposed Acquisition is expected to result in the emergence of the Vendors as substantial shareholders of the Company.

7.3 Earnings

For the FYE 31 December 2008, Grand-Flo has registered an audited consolidated loss attributable to ordinary equity holders of RM348,784 or approximately 0.28 Sen per Grand-Flo Share.

Going forward, with the elimination of the minority interests in LNSB, the Proposed Acquisition is expected to be earnings accretive based on the annualised unaudited consolidated PAT of Grand-Flo for the nine (9)-months FPE 30 September 2009.

For illustration purposes only, based on the annualised unaudited consolidated PAT of Grand-Flo for the nine (9)-months FPE 30 September 2009 of RM2,633,553, the profits attributable to the equity holders of the Company and minority interests are RM1,605,520 and RM1,028,033 respectively. With the elimination of the minority interests in LNSB and issuance of the Consideration Shares, the earnings per share attributable to the ordinary shareholders of Grand-Flo is expected to increase from 1.20 Sen to 1.85 Sen.

Furthermore, the Proposed Acquisition is also expected to contribute positively to the consolidated profits attributable to the ordinary shareholders of Grand-Flo in the future.

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7.4 Net assets and gearing

Based on the latest available audited consolidated balance sheets of Grand-Flo as at 31 December 2008, the proforma effects of the Proposed Acquisition on Grand-Flo's consolidated net assets and gearing are as follow:-

	Audited As at 31 Dec 2008 (RM'000)	Proforma I After taking into account material events subsequent to 31 December 2008⁽¹⁾ (RM'000)	Proforma II After the completion of the Proposed Acquisition (RM'000)
Share capital	12,446	13,585	14,508
Share premium	8,760	12,407	15,084
Treasury shares	(2)	(9)	(9)
Other reserves	1,056	1,056	1,056
Foreign exchange fluctuation reserve	589	589	589
Share option reserve	77	77	77
Retained earnings	7,565	7,565	7,565
Minority interests	1,842	1,842	186
Total equity / Net assets	32,333	37,112	39,056
No. of Grand-Flo Shares in issue ('000)	124,457	135,855	145,085
Net assets per share (Sen)	25.98	27.32	26.92
Total borrowings (interest- bearing) (RM'000)	11,346	11,346	11,346
Gearing (times)	0.35	0.31	0.29

Note:-

(1) Taking into account the completion of the acquisition of CL Solutions (China) Limited ("**CLS China**") on 28 February 2009 and the additional 19,800 Grand-Flo Shares repurchased by the Company after 31 December 2008 up to the date of this announcement under a share buy-back scheme.

8. APPROVALS REQUIRED

The Proposed Acquisition is subject to the following approvals being obtained: -

- (i) Bursa Securities for the listing of and quotation for the Consideration Shares;
- (ii) shareholders of Grand-Flo at an EGM to be convened; and
- (iii) any other relevant authorities/parties.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

The following Directors of Grand-Flo do not consider themselves independent in respect of the Related Party Transaction by virtue of the following:-

- (i) Wan Kok Weng is an Executive Director and shareholder of Grand-Flo and one of the Vendors to the Proposed Acquisition and a Director of LNSB, KMSB and Labels4U; and

- (ii) Chan Pik Khew is the Alternate Director to Wan Kok Weng and has indirect interest in Grand-Flo by virtue of being the spouse of Wan Kok Weng and is one of the Vendors to the Proposed Acquisition and a Director of KPSB and Penkopack;

(collectively referred to as the “**Interested Directors**”).

The interests, direct and indirect, of the Interested Directors in Grand-Flo as at the date of this announcement are set out below:-

Interests of Interested Director	Direct		Indirect	
	No. of Grand-Flo Shares	%	No. of Grand-Flo Shares	%
Wan Kok Weng	1,500,000	1.10	-	-
Chan Pik Khew	-	-	1,500,000*	1.10

Note:-

* Deemed interested by virtue of her spouse's, Wan Kok Weng's interest in Grand-Flo pursuant to Section 6A of the Act.

In view of the above, the Interested Directors have abstained and will continue to abstain from the Board's deliberation on the Proposed Acquisition. By virtue of their direct and indirect interests in Grand-Flo, the Interested Directors and/or the persons connected to them will also abstain from voting at the EGM to be convened

Save as disclosed above, none of the Directors, major shareholders of Grand-Flo and/or persons connected to them has any interest, direct or indirect, in the Proposed Acquisition.

10. INDEPENDENT ADVISER

In view of the Proposed Acquisition being deemed to be a related party transaction and is subject to the requirements of Paragraph 10.08 of the AMLR, the directors who are independent of the Proposed Acquisition, set out as follows:-

- (i) Dato' Dr. Mohd Ariff bin Araff;
- (ii) Tan Bak Hong;
- (iii) Cheng Ping Liong;
- (iv) Tan Bak Leng;
- (v) Yap Li Li;
- (vi) Thongkam Manasilapapan;
- (vii) Othman bin Bakri;
- (viii) Tan Chuan Hock;
- (ix) Cheong Kee Yoong;
- (x) Yu Chee Sing; and
- (xi) Yek Deiw See,

(collectively, the “**Independent Directors**”) have on 4 January 2010 appointed OSK Investment Bank Berhad (“**OSK**”) as the independent adviser to the Independent Directors and the non-interested shareholders of the Company in respect of the Proposed Acquisition.

The role of OSK as the independent adviser is to comment on whether the Proposed Acquisition is fair and reasonable so far as the shareholders are concerned and whether the transaction is to the detriment of the minority shareholders of Grand-Flo. Upon forming their opinion on the Proposed Acquisition after having undertaken all reasonable steps to satisfy themselves that they have a reasonable basis, OSK will then advise the minority shareholders on whether they should vote in favour of the Proposed Acquisition by way of an independent advice letter to be despatched to Grand-Flo's shareholders together with the circular to shareholders detailing the Proposed Acquisition and Notice of EGM in due course.

11. DIRECTORS' OPINION

The Independent Directors, having considered all aspects of the Proposed Acquisition including its rationale and the profit track record of the LNSB Group as set out in Section 4 of this announcement, are of the opinion that the Proposed Acquisition is in the best interest of the Company and not detrimental to the interest of the minority shareholders. The Independent Directors are of the view that the Proposed Acquisition is fair, reasonable and on normal commercial terms.

The Independent Directors, in arriving at their views, have sought independent advice from OSK, being the appointed independent adviser for the Proposed Acquisition.

12. AUDIT COMMITTEE'S OPINION

The audit committee of Grand-Flo ("**Audit Committee**") having considered all aspects of the Proposed Acquisition including its rationale and the profit track record of the LNSB Group as set out in Section 4 of this announcement, is of the opinion that the Proposed Acquisition is in the best interest of the Company and not detrimental to the interest of the minority shareholders. The Audit Committee is of the view that the Proposed Acquisition is fair, reasonable and on normal commercial terms.

The Audit Committee, in arriving at their views, have sought independent advice from OSK, being the appointed independent adviser for the Proposed Acquisition.

13. HIGHEST PERCENTAGE RATIO APPLICABLE TO THE PROPOSED ACQUISITION PURSUANT TO PARAGRAPH 10.02(G) OF THE AMLR

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the AMLR is 11.81%.

14. ESTIMATED TIME FRAME FOR COMPLETION

The submission to the relevant authorities is expected to be made within three (3) months from the date of this announcement.

Barring unforeseen circumstances and subject to the approvals of the relevant authorities being obtained, the Proposed Acquisition is expected to be completed by the 2nd Quarter of 2010.

15. ADVISER

KIBB has been appointed as the adviser to Grand-Flo for the Proposed Acquisition.

16. CIRCULAR TO SHAREHOLDERS AND NOTICE OF EGM

The circular to shareholders detailing the Proposed Acquisition and Notice of EGM will be despatched to shareholders in due course.

17. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of Grand-Flo during office hours from Mondays to Fridays (except for public holidays) at Third Floor No. 79 (Room A), Jalan SS 21/60, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan for a period of three (3) months from the date of this announcement:-

- (i) the SPA;
- (ii) the audited financial statements of LNSB for the financial years ended from FYE 31 December 2006 to FYE 31 December 2008;
- (iii) the audited financial statements of KPSB for the financial years ended from FYE 31 December 2006 to FYE 31 December 2008;
- (iv) the audited financial statements of KMSB for the financial period from 26 March 2008 to 31 December 2008;
- (v) the audited financial statements of Penkopack for the financial years ended from FYE 31 December 2006 to FYE 31 December 2008;
- (vi) the audited financial statements of Labels4U for the financial period from 29 August 2008 to 31 December 2008; and
- (vii) the audited financial statements of Simat Label for the financial period from 18 December 2007 to FYE 31 December 2008.

This Announcement is dated 18 January 2010.