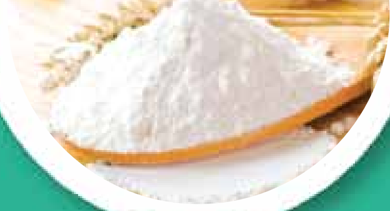

LOTUS KFM

LOTUS KFM BERHAD

(formerly known as Kuantan Flour Mills Berhad)

Registration No. 198401007083 (119598-P)

ANNUAL REPORT 2019

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CORPORATE **STRUCTURE**

LOTUS KFM

LOTUS KFM BERHAD
(formerly known as Kuantan Flour Mills Berhad)
Registration No. 198401007083 (119598-P)

- 100% KFM Marketing Sdn Bhd
- 100% KFM Industries Sdn Bhd *
- 100% KFM Ventures Sdn Bhd *
- 100% KFM Biotechnology Sdn Bhd *

* These subsidiaries are in the process of striking off with the Companies Commission of Malaysia

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mohd Rasli bin Muda
Independent Non-Executive Chairman

Lee Wai Fun
Executive Director cum Chief Executive Officer

Low Koon Min
Independent Non-Executive Director

Wong Sak Kuan
Non-Independent Non-Executive Director / Deputy Chairman

Yau Ming Teck
Non-Independent Non-Executive Director

AUDIT COMMITTEE

Low Koon Min (***Chairperson***)
Mohd Rasli bin Muda
Wong Sak Kuan

NOMINATION COMMITTEE

Low Koon Min (***Chairperson***)
Mohd Rasli bin Muda
Yau Ming Teck

REMUNERATION COMMITTEE

Mohd Rasli bin Muda (***Chairman***)
Wong Sak Kuan
Low Koon Min

COMPANY SECRETARY

Tea Sor Hua
(***MACS 01324***)

REGISTERED OFFICE

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Damansara Utama
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Selangor
Tel: +603-77251777
Fax: +603-77223668

PRINCIPAL OFFICE

Kawasan Lembaga Pelabuhan Kuantan
KM25, Jalan Kuantan/Kemaman
Tanjung Gelang, 26080 Kuantan, Pahang
Tel: +609-5833611
Fax: +609-5833618
Website: http://www.kfmb.com.my/

PRINCIPAL BANKERS

Malayan Banking Berhad
CIMB Bank Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

SHARE REGISTRAR

Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel: +603-20849000
Fax: +603-20949940/+603-20950292

AUDITORS

Grant Thornton Malaysia PLT
(201906003682 & AF 0737)
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: +603-26924022
Fax: +603-26915229

SOLICITOR

H.Y. Lee & Co.
54(1st Floor), Jalan Raja Haroun
43000 Kajang
Selangor Darul Ehsan

STOCK EXCHANGE LISTING

Main Market of the Bursa Malaysia
Securities Berhad
Stock Name: LOTUS
Stock Code: 8303

MANAGEMENT DISCUSSION
AND ANALYSIS

OVERVIEW OF BUSINESS AND OPERATIONS

Lotus KFM Berhad ("LKFM") is principally engaged in flour milling and trading in its related products. The two main sources of revenue comprise of wheat flour and trading of tapioca flour.

In conjunction with the implementation of the regularization plan, the Company had changed its name from Kuantan Flour Mills Berhad to Lotus KFM Berhad to reflect a new corporate entity.

Since 28 December 2015, the Company had been classified as an affected listed issuer under PN17. On 28 November 2019, it had successfully completed its regularization plan which was approved by Bursa Malaysia Securities Berhad on 11 January 2019.

And on even date, the Company had appointed several new Board members to strengthen its Board size with a mix of diversity in skill, expertise and experience. The Company had managed to continue re-captured its flour market since re-activation of its business operations. This can be seen from its uptrend in sales performance since financial year ended ("FYE") 2017 (FYE 2017: RM7.521 million, FYE 2018: RM39.007 million & FYE 2019: RM58.604 million). The Company had also initiated continuing efforts to improve its cost structure, operational efficiency, working capital management and supply chain stability. With all these elements in place, we are confident that the Company will be able to achieve a sustainable profit in the ensuing year and ultimately uplift from PN17 status.

This Statement contains the Management Discussion and Analysis ("MDNA") on the performance of the Group for FYE 2019 and it should be read in conjunction with the Audited Financial Statement of the Group for FYE 2019 as set out in the ensuing sections of this Annual Report.

CORPORATE DEVELOPMENTS

On 28 November 2019, the Company had successfully completed its regularization plan with the issuance and listing of 27,290,000 placement shares, 477,595,420 rights shares, 116,580,700 settlement shares and 297,088,060 warrants with Bursa Malaysia Securities Berhad.

Details of the regularization plan can be obtained from the Company's various announcements with Bursa Malaysia Securities Berhad.

REVIEW OF GROUP'S FINANCIAL RESULTS AND FINANCIAL CONDITIONS

The following table is the financial highlights of the Group for the past five (5) financial years:-

	2019 '000	2018 '000	2017 '000	2016 '000	2015 '000
Revenue	58,604	39,007	7,521	3,924	24,864
Operating loss	(3,958)	(2,905)	(12,259)	(11,795)	(16,459)
Loss before tax	(3,958)	(2,905)	(12,260)	(12,093)	(16,845)
Loss after tax and minority interests	(3,958)	(2,903)	(12,260)	(12,092)	(16,845)
Shareholders' funds	(29,931)	(25,972)	(23,068)	(10,807)	1,286
Net tangible assets	(29,931)	(25,972)	(23,068)	(10,807)	1,286
Tangible assets	36,295	15,608	15,244	8,233	23,504
Basic loss per share (sen)	(5.80)	(4.25)	(17.97)	(17.72)	(25.07)
Net assets per share (sen)	(43.87)	(38.06)	(33.81)	(15.84)	1.88

REVIEW OF GROUP'S FINANCIAL RESULTS AND FINANCIAL CONDITIONS (continued)

We recorded a revenue of RM58.604 million (FYE 2018: RM39.007 million). This represented an increase of 50.24%. This was mainly attributed to the great improvement in wheat flour sales.

Wheat flour (RM'000)			**Tapioca flour (RM'000)**		
2019	2018	% Changes	2019	2018	% Changes
26,713	11,128	140.05	31,891	27,879	14.39

In tandem with the significant surge in sales performance, the gross profit margin had also shown an improvement of 276.31% to RM1.080 million for FYE 2019 (FYE 2018: RM0.287 million). The improvement was largely brought by positive contributions from trading of tapioca starch and also due to the Management's initiatives on constantly reviewing its product mix with strategic choices around its existing portfolio of products with better margin.

Despite with the better overall performance in sales and gross margin contributions during the financial year, the Group had experienced a higher of 36.25% loss before tax with RM3.958 million (FYE 2018: RM2.905 million). This was largely due to higher administrative expenses incurred during the financial year with RM3.435 million (FYE 2018: RM1.762 million). This translated into 94.95% increase in administrative cost which was largely due to impairments on unquoted investment and impairment of old flour milling line and also professional fees incurred for the corporate exercise on the regularization plan.

In line with the improved sales performance, the Group had initiated extensive marketing efforts during the financial year with higher marketing expenses of 20.78% to RM1.732 million (FYE 2018: RM1.434 million).

The Group's long-term assets had recorded with an increase of 198.81% to RM14.519 million (FYE 2018: RM4.859 million). This was due to the purchase of new flour milling line during second half of the financial year.

The Group's inventory level for current FYE 2019 had registered with an increase of 145.35% to RM9.998 million (FYE 2018: RM4.075 million). The higher inventory holding was driven by the increase in sales level.

In tandem with the increase in sales revenue, the total trade receivables had surged to RM6.308 million with an increase of 28.68% (FYE 2018: RM4.902 million) which was largely due to additional credit sales granted to customers.

The Group's cash and cash equivalents stood at RM3.334 million for current FYE 2019. (FYE 2018: 1.242 million). This represented with an increase of 168.44%.

The Group has zero gearing as at end of current financial year.

On the payables side, it had increased substantially to RM66.212 million with an increase of 59.29% (FYE 2018: RM41.566 million). This was mainly due to the advances and supplier's credit extended by Lotus Essential Sdn Bhd ("LOTUS") to fund on the purchase of raw materials and other operational costs incurred during the period. In addition, Lotus had also funded the purchase of a new flour milling line which involved a net cash outflow of RM11.096 million.

The current loss after tax of RM3.958 million has increased the negative shareholders' fund to RM29.931 million (FYE 2018: negative RM25.972 million). This amounted to a greater deterioration in shareholders' fund of 15.24%. For the FYE 2019, the Group had recorded with surplus net operating cashflow of RM13.188 million (FYE 2018: RM1.150 million). This was largely due to the increase in trade and other payables of RM24.645 million which was mainly due to advances and suppliers' credit extended by Lotus.

Management Discussion and Analysis (continued)

OPERATIONS REVIEW

In July 2019, the Company had successfully installed and commissioned a new flour milling line with a processing capacity of 300mT input of wheat per day with the aim of meeting anticipated future sales growth upon completion of the regularization plan as well as serving as an alternative milling line in the event of any abrupt disruption due to breakdown of existing old milling line.

The total cost incurred for the new line is RM10.709 million.

Following the completion of our installation and commissioning of our new milling line, the Group look forward to widen its market reach to foreign flour markets with aggressive marketing strategies.

In order to further improve our production efficiency, the Company had also engaged with foreign consultants to study and review the production process and the conditions of the old milling line to determine ways to improve its productivity, reduce operational costs without affecting the quality of output.

During the financial year, the Company had installed two (2) additional packing lines to cater for the anticipated increase in sales of wheat flour.

During the financial period, the Company had also initiated some improvements and upgrading of the fire-fighting system at the office and factory plant in order to improve the safety of its workplace.

ANTICIPATED BUSINESS RISKS

The business risks face by the Group basically include market competitions, volatility of imported raw material prices, movements of currency exchange rates, performance of user industries and changes in economic, political and regulatory conditions.

(a) Market competitions

The flour milling sector remains competitive among the flour milling operators locally as well as imported wheat flour and starch. The Group will continue to develop new market strategy to capture new market, particularly on less well served segments, improve its distribution channels as well as product mix and quality to meet a wider range of customers' needs and requirements.

(b) Volatility of raw material prices

Volatility of prices on imported raw materials such as wheat and tapioca remain the key challenges. Both the wheat and tapioca are globally traded commodities, and as a result, their prices may fluctuate from time to time. The price of wheat and tapioca are influenced by global macroeconomic factors including, among others, supply and demand of wheat and tapioca, as well as stock levels.

As the cost of these raw materials constitute a major part of wheat flour and tapioca starch cost, managing these costs remain the key challenges.

Any increase in the prices of these imported raw materials if unable to pass onto customers on time, may adversely affect the financial performance of the Company.

Stability of imported raw material prices remain a key challenge for all the industry players. This is an inherent risk faced by all the industry players.

The Group have taken proactive measures to mitigate the unexpected interruption of the supply of these imported raw materials as well as their prices by increasing stock up the inventory to a reasonable level when prices are relatively low.

ANTICIPATED BUSINESS RISKS (continued)

(c) Volatility of currency exchange rates

As LKFM's main raw materials such as wheat and tapioca are fully imported from oversea markets and are traded in US currency, fluctuations in US/RM rates will have great impact on its raw material costs and hence its financial performance. However, during the current financial year, the Company has purchased the aforesaid raw materials locally from its business collaboration partner, LOTUS. Hence, the aforesaid currency risk is protected.

(d) Dependency on performance of user industries

Flour is mainly used in food manufacturing industries and food services operations. Any adverse performance in user industries would affect the demand for these products and hence, the financial performance of the Company. We will continue to take prudent approach to manage this risk. However, this is an inherent risk in the wheat flour milling industry.

(e) Changes in economic, political and regulatory conditions

Any adverse developments in macro economies both globally as well as within the nation will have great negative impact on the financial performance of the Group. Similarly, any changes in political leadership which may bring about unfavorable changes in governmental policies such as introduction of new regulations, import restrictions and duties, tariffs, licensing or subsidies. The Group may take prudent approach to manage these risks internally in the event it arises, however these risks are beyond the control of the Group.

OUTLOOK

The operating environment is expected to remain highly competitive and we anticipate intensifying pressures on margins as consumers' living costs rise. Nevertheless, the Group will persevere in elevating operational efficiency and focus on exploring various marketing strategies to improve the Group's revenue and profitability.

We always uphold our mantra of offering excellent customer services, with great prices as our inherent objective. Regardless of the economic weather, the benchmark for best value is set so that our customers can get the best possible deals with no compromise in quality and services.

Baring with any unforeseen circumstances, we shall deliver greater financial performance in the financial year to come and uplift from PN17 status in the ensuing financial year.

NOTE OF APPRECIATION

To our shareholders, customers, suppliers and business associates, who have given us the valuable support, we wish to express our sincere appreciation and thanks to all of your enduring trust and confidence in our business.

Further, we wish to express our sincere thanks and appreciation to both our previous Independent Non-Executive Chairman, Encik Kushairi bin Zaidel (resigned on 1 July 2019) and Independent Non-Executive Director, Encik Iskandar Zurkanain bin Mohamed (resigned on 28 November 2019) on their dedications, valuable advises and support rendered to us during their tenure in office.

We also would like to take this opportunity to welcome our new Board members namely Encik Mohd Rasli bin Muda (Chairman, Independent Non-Executive Director), Mr. Wong Sak Kuan (Non-Independent Non-Executive Director / Deputy Chairman), Ms. Lee Wai Fun (Executive Director cum Chief Executive Officer) and Mr. Yau Ming Teck (Non-Independent Non-Executive Director) to the Board on 28 November 2019. With their diverse expertise and experience, we are confident that under their leadership, the Group will achieve a greater performance in years to come.

CORPORATE GOVERNANCE
OVERVIEW STATEMENT

The Corporate Governance Overview Statement is augmented with Corporate Governance Report, based on prescribed format as enumerated in Paragraph 15.25(2) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") so as to provide a detail articulation on the application of the Group's corporate practice vis-à-vis the Malaysian Code on Corporate Governance ("the Code").

The Board of Directors ("the Board") of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad) ("LKFM" or "the Company") fully support the recommendations of the Code in maintaining a high standard of corporate governance and to ensure that the principles and best practices of corporate governance are observed and adopted as a fundamental part of discharging its responsibilities to protect and enhance stakeholders' value.

This Corporate Governance Statement should also be read together with the Company's Corporate Governance Report for the financial year ended 30 September 2019 ("FYE 2019") which is available on the Company's website at www.kfmb.com.my as well as via an announcement on the website of Bursa Securities.

This Statement gives the shareholders an overview of the corporate governance practices of the Company for the FYE 2019.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

Roles and Responsibility of the Board

The Company is led by an experienced and dynamic Board. It has a balanced Board composition with effective Independent Directors. The Board provides stewardship to the Group's strategic direction and operations, and ultimately enhancing shareholders value. To fulfill this role, the Board is responsible for the following:

- To review the performance of the Group on a quarterly basis;
- To receive updates and oversee the conduct of the Group's business and operations;
- To deliberate on proposals presented and recommended by the Management;
- To review and approve the annual and quarterly results, acquisition and disposal of major assets;
- To ensure that there are plans in place for orderly succession of senior management;
- To oversee the development and implementation of a communication policy for the Group;
- Responsible for material matters of the Group and reserved for the Board's decisions;
- To examine its own size and composition and to determine the impact on the Board's effectiveness; and
- To review the adequacy and integrity of internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

In order to assist in the discharge of its stewardship role, the Board has established Board Committees, namely the Audit Committee, Nomination Committee and Remuneration Committee to examine specific issues within their respective terms of reference as approved by the Board and report to the Board with their recommendations. The ultimate responsibility for decision making however, lies with the Board.

Board Charter

The Board recognizes and observes the role, composition and responsibilities of the Board embodying in the principles of the Code and observe as a source of reference for new Board member. The Board Charter sets out guidance and principles of good corporate governance to ensure fairness, transparency, accountability and responsibility. It provides guidance for Directors and Management regarding their roles in discharging their duties towards the Company as well as boardroom activities.

The Board shall review and update the Board Charter from time to time to reflect changes to the Company's policies, procedures as well as to comply with the latest regulations and legislations.

Whistle Blowing Policy & Code of Ethics and Conduct

The Board has adopted a Whistle Blowing Policy and Code of Ethics and Conduct respectively and published it in the Company's Website at www.kfmb.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Board Composition

The composition of the current Board of Directors is well balanced, with an effective mix of Executive Director, Independent/Non-Independent and Non-Executive Directors. The Board has five (5) members as set out in the table below, which comprises at least two (2) Independent Directors:-

	Names	Designation
1.	Mohd Rasli bin Muda	Independent Non-Executive Chairman
2.	Wong Sak Kuan	Non-Independent Non-Executive Director / Deputy Chairman
3.	Lee Wai Fun	Executive Director cum Chief Executive Officer (“CEO”)
4.	Low Koon Min	Independent Non-Executive Director
5.	Yau Ming Teck	Non-Independent Non-Executive Director

The Independent Directors, who are professional of credibility and repute, demonstrate independent judgement and objectivity in the Board’s deliberations. The diverse professional backgrounds of the Directors provide the Board with an effective mix of members with industry-specific knowledge and broad business experience.

A brief profile of the Directors is presented in the Board of Directors’ Profile of this Annual Report.

The Board acknowledges the importance of Board and Management composition diversity as recommended by the Code. In pursuing diversity agenda, the Directors and Senior Management are sourced from a diverse pool and recruited based on objective criteria, merit and with due regard for diversity in skills, knowledge, experience, age, cultural background, gender and contribution.

The Board had adopted a Board Diversity Policy. The policy will emphasize on the needs for diversity amongst the Board members, amongst others, include race, ethnicity, age, gender, skills, competencies, experiences and expertise.

The Board had also implemented a process for annual assessment of the effectiveness of the Board as a whole, the Board Committees, and for assessing the contribution of each individual Director. This process shall be carried out by the Nomination Committee.

The Board continually assesses the composition and the tenure of its Independent Directors to ensure they have the appropriate balance of skills, expertise and experience to bring an independent view in the consideration of Board’s issues and provide the appropriate advice to maintain the highest level of corporate ethics. LKFM measures the independence of its Directors based on the criteria prescribed under MMLR in which a Director should be independent and free from any business or other relationship that could interfere with the exercise of independent judgement or the ability to act in the best interest of the Company.

During the financial year under review, none of the Directors has served the Board as an Independent Director of the Company for a cumulative term of more than nine (9) years.

The Non-Executive Directors contribute significantly in areas such as policy and strategy, performance monitoring, allocation of resources as well as improving governance and controls. They also ensure that the strategies proposed by the management are fully discussed and examined, and take into account the long-term interest not only of the shareholders, but also of employees, customers and suppliers. Together with the CEO who has an in-depth knowledge of the business, the Board constitutes individuals who are committed to business integrity and professionalism in all its activities.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Board Composition (continued)

The Board recognizes and embraces the benefits of having a diverse Board, and understand that increasing diversity at Board level is an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skill, regional and industry experience, background, race, gender and other distinction between Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointment are made on merit, taking into account the skills, experience, independence and knowledge which the Board as a whole requires to be effective. In line with the recommendation under the Code for gender diversity, the Board has established and adopted a Gender Diversity Policy on 30 September 2019 which provides a framework for the Company to improve its gender diversity at Board level.

Each Board members is expected to commit sufficient time to carry out his/her role as Director and/or member of the Board Committees in which he/she is a member. In accordance with the requirements of MMLR, none of the Directors of the Company can holds more than five (5) directorships in public companies. This ensures the Independent Directors' commitment, resources and time are focused for an effective input to the Board.

Board Meetings

Meeting and Procedures

All Board and Board Committees meetings for the ensuing financial year are scheduled in advance so as to enable the Directors to plan and organize their respective schedules for the year.

The Board and Board Committees shall meet at least four (4) times annually, or more frequently as circumstances dictate. As part of the duty to foster open communication, the auditors and a representative(s) of the external auditors (if required) will be invited to attend the meetings. Senior Management personnel also attended the meeting upon invitation by the Committee to provide their professional views, advise and explanation on specific items. The Company Secretary or any other person appointed by the Board or Board Committees for this purpose shall act as Secretary for the Committee and as a reporting procedure, the minutes shall be circulated to all members of the meeting.

During the current financial year under review, the Board held five (5) meetings. Details of attendance at Board meetings are as follows:

Directors	Attendance
Mohd Rasli bin Muda *(Appointed on 28 November 2019)*	–
Wong Sak Kuan *(Appointed on 28 November 2019)*	–
Lee Wai Fun *(Appointed on 28 November 2019)*	–
Yau Ming Teck *(Appointed on 28 November 2019)*	–
Low Koon Min *(Appointed on 28 January 2019)*	3/3
Iskandar Zurkanain bin Mohamed (*Resigned on 28 November 2019)*	5/5
Kushairi bin Zaidel *(Resigned on 1 July 2019)*	4/4

To facilitate an effective way to discharge the responsibilities, the Board Committees have been established and guided by the terms of reference. The Board Committees are chaired by Independent Non-Executive Directors who exercise skillful leadership with in-depth knowledge of the industry.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Nomination Committee and Remuneration Committee ("NC & RC" or "the Committees")

Currently, the composition of the NC & RC complies with the MMLR. The Committees comprise wholly Independent and Non-Executive Directors as follows:

NC Members
Low Koon Min (Chairperson) *(Appointed on 28 January 2019 and re-designated as Chairperson on 28 November 2019)*
Mohd Rasli bin Muda *(Appointed on 28 November 2019)*
Yau Ming Teck *(Appointed on 28 November 2019)*
Kushairi bin Zaidel *(Resigned on 1 July 2019)*

RC Members
Mohd Rasli bin Muda (Chairman) *(Appointed on 28 November 2019)*
Low Koon Min *(Appointed on 28 January 2019)*
Wong Sak Kuan *(Appointed on 28 November 2019)*
Kushairi bin Zaidel *(Resigned on 1 July 2019)*

The NC will scrutinise the candidates and recommend the same for the Board's approval. In discharging this duty, the Committees will undertake a thorough review of the candidate's criteria, amongst others, qualifications, skills, knowledge, expertise, experience, personal attributes and the capability to devote the necessary time and commitment to the role.

The Board believes that individual with diverse backgrounds, independence, competencies and diversity represented on the Board could improves its effectiveness and bring differing perspective in its deliberations and decision-making processes.

The above composition ensures that any decisions made are impartial and in the best interest of the Company without any element of fear or favor.

In furtherance to that, the RC will also recommend to the Board the framework of executive remuneration package for Executive Director based on his/her duties and responsibilities. It is nevertheless the ultimate decision of the entire Board to approve the appointment and remuneration of new directors and the director do not participate in decision on his/her own remuneration package. The Director fees are approved at the Annual General Meeting ("AGM") annually by the shareholders, based on the recommendation from the Board.

The NC & RC meet as and when required and at least once every financial year.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Nomination Committee and Remuneration Committee ("NC & RC" or "the Committees") (continued)

Due to the size of the above Committees and insufficient quorum for meeting during the financial year under review, the functions of the NC & RC were retained at the Board level. In November 2019, the Board has carried out the following annual assessment for the FYE 2019 based on agreed evaluation process, criteria to be used and the evaluation method:-

(i) Performance of the External Auditors;
(ii) Performance of the Independent Non-Executive Directors;
(iii) Independency of the Independent Directors;
(iv) Performance of the Audit Committee ("AC"); and
(v) Effectiveness of the Board and Board Committees as a whole.

In addition, the Board also reviewed on the directors' fees and benefits and the re-election of directors before recommending the same to the shareholders for approval at the AGM of the Company.

The NC and RC's Terms of Reference are available at the Company website at www.kfmb.com.my.

Minutes of Meeting

The proceedings and resolutions passed at each Board and Board Committees' meeting are minuted and kept in the statutory register at the registered office of the Company. In the event of any potential conflict of interests, the Directors in such a position will make a declaration to that effect as soon as practicable. The Directors concerned will then abstained from any decision-making process in which they are involved.

Supply of Information

The Board has unrestricted access to the timely and accurate information necessary in the furtherance of their duties. The Company Secretary ensures that all Board meetings are furnished with proper agenda. Board papers, which include reports on Group performance and major operational, financial, strategic and regulatory matters are circulated to all the Directors not less than seven (7) days prior to the meeting, in order to allow the Directors have sufficient time to review. In most instances, senior management of the Company as well as external advisors are invited to attend the Board meeting to provide fresh insights and to furnish clarification on issues that may be raised by the Board.

Company Secretary

The Board is supported by a qualified and competent Company Secretary. The Company Secretary is a member of the Malaysian Association of Company Secretaries and is holding a professional certificate as qualified Company Secretary under the Malaysian Companies Act 2016. The Company Secretary possesses over 25 years of experience in corporate secretarial practices and is supported by a team of competent company secretarial personnel.

The Company Secretary has:-

- together with Management, managed all Board and Board Committee meeting logistics;
- attended and recorded minutes of all Board and Board Committee meetings and facilitated Board communications;
- advised the Board on its roles and responsibilities;
- advised the Board on corporate disclosures and compliance with laws, rules, Corporate Governance best practices and procedures affects the Company;
- managed processes pertaining to the AGM of the Company; and
- monitored corporate governance developments and advised the Board on governance practices.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Company Secretary (continued)

The Company Secretary attended the necessary training programmes, conferences or seminars organised by the Companies Commission of Malaysia, Bursa Securities and Securities Commission to keep herself abreast with the current regulatory changes in the laws and regulatory requirements that are relevant to her profession and to provide the necessary advisory role to the Board.

Overall, the Board is satisfied with the performance and support rendered by the Company Secretary to the Board in the discharge of her duties and functions.

Independent Professional Advice

Apart from having full and unrestricted access to all information of the Group on a timely and accurate manner, the Board is encouraged to seek independent professional advice, where necessary, at the Group's expense from time to time. This is to enable the Board to discharge its duties in relation to the matters being deliberated. The procedure will involve informing the Company Secretary who will propose a list of advisors for consideration. The advice given could also be shared with the other Board members. Similar access is also extended to the Board Committees on the same basis.

Appointment to the Board

The proposed appointment of new Board members is reviewed and assessed by the NC. Thereafter the NC submits its recommendation on the proposed appointment to the Board for approval. The NC's primary role is to review the required mix of skills and experience of the Directors on the Board, and determine the appropriate Board balance and size of non-executive directors. It will establish procedures and processes towards an annual assessment of the effectiveness of the Board as a whole, the committees of the Board and for assessing the contribution of each individual Director including time commitment. The Board is satisfied that the current composition of the Board brings the required mix of skills and experience required for the Board to function effectively.

The Board is responsible to assess, evaluate and recommend a new Board member to the Board after taking into consideration the relevant criteria such as age, gender, ethnicity, skill and experience, industry knowledge, personal qualities and characteristic which include integrity and willingness and ability to discharge duty as Director.

Board Training

The Board acknowledges that its Directors must keep abreast of developments in the Group's operating environment and business and will need to enhance their knowledge and business acumen to meet challenging commercial risks. All Directors have completed the Mandatory Accreditation Program prescribed by Bursa Securities.

During the FYE 2019, the Directors had attended the following training programmes in compliance with Paragraph 15.08 of the MMLR of Bursa Securities:-

Name of Directors	Training/seminar attended
Low Koon Min	• Key amendments to the Main Market Listing Requirements of Bursa Securities relating to continuing disclosure obligations and other amendments
Iskandar Zurkanain bin Mohamed *(Resigned on 28 November 2019)*	• Key amendments to the Main Market Listing Requirements of Bursa Securities relating to continuing disclosure obligations and other amendments

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Board Training (continued)

For the new Directors, a familiarization programme will be conducted for them as well. This includes a presentation of the Group's operations, meetings with Management and site visits in order to facilitate their understanding of the Group's operations and requirements.

The Directors are encouraged to attend relevant seminars and courses to keep themselves abreast on the various issues faced in the changing business environment, regulatory and corporate governance developments to enhance their professionalism, skill and knowledge to effectively discharging their duties and responsibilities.

The Directors recognize the need to continually develop and refresh their skills and knowledge and to update themselves on the developments in the related industry and business landscape.

Relevant guidelines on statutory and regulatory requirements were circulated to the Board from time to time for Board reference.

The Board, via the NC, will continue to identify and attend appropriate briefings, seminars, conferences and courses to keep abreast of relevant changes in legislations and regulations, development in the industry in order to further enhance their skills and knowledge.

Directors are mindful that they must continue to enhance their skills and knowledge to maximize their effectiveness during their tenure. Throughout their years in office, the Directors are continually updated on the Group's business and the regulatory requirements by the Management and the Company Secretary.

Re-election and Re-appointment of Directors

In accordance with the Company's Constitution, one-third (1/3) of the Directors are subject to retirement by rotation at every AGM and provided always that all Directors shall retire from office at least once in every three years but shall be eligible for re-election. Directors who are appointed by the Board are subject to re-election by the shareholders at the next AGM held following their appointments.

The Board makes recommendations concerning the re-election, re-appointment and the continuation in office of any Director for shareholders' approval at the AGM.

Encik Mohd Rasli Bin Muda, Mr. Wong Sak Kuan, Ms. Lee Wai Fun and Mr. Yau Ming Teck, who were appointed on 28 November 2019 are subject to retirement pursuant to the Company's Constitution, of whom being eligible for re-election, has offered himself/herself for re-election at the forthcoming AGM.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Remuneration

The Directors' fees and benefits of the Company are subject to the shareholders' approval of the Company. The remuneration of the individual Director of the Company for the FYE 2019 is as follows:-

The Company

Name of Directors	Salaries RM	Fees RM	Meeting and Other Allowance RM	Bonus RM	Benefits in Kind RM	Total RM
Low Koon Min	–	24,000	–	–	–	24,000
Iskandar Zurkanain bin Mohamed *(Resigned on 28 November 2019)*	–	36,000	–	–	–	36,000
Kushairi bin Zaidel *(Resigned on 1 July 2019)*	–	27,000	–	–	–	27,000
Total	**–**	**87,000**	**–**	**–**	**–**	**87,000**

The Group

Name of Directors	Salaries RM	Fees RM	Meeting and Other Allowance RM	Bonus RM	Benefits in Kind RM	Total RM
Low Koon Min	–	24,000	–	–	–	24,000
Iskandar Zurkanain bin Mohamed *(Resigned on 28 November 2019)*	–	36,000	–	–	–	36,000
Kushairi bin Zaidel *(Resigned on 1 July 2019)*	–	27,000	–	–	–	27,000
Total	**–**	**87,000**	**–**	**–**	**–**	**87,000**

Remuneration of Senior Management

Due to confidentiality and sensitivity of the remuneration packages of senior management as well as security concerns, the Board views that the disclosure of the remuneration of senior management on named basis would be not in the best interest of the Company given the competitive human resources environment may give rise to recruitment and talent retention issues.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (continued)

Legal and Make-Up of Remuneration

The RC is responsible for evaluation and recommending to the Board the level and make-up of the remuneration of the Executive Director(s) and CEO ensuring that they commensurate with the scope of responsibilities held in order to attract and retain the persons of necessary caliber, experience and quality needed to successfully lead the Company.

The RC is also responsible for reviewing and making recommendations to the Board on the framework and remuneration packages of the Non-Executive Directors to ensure that the levels of remuneration are sufficient to attract and retain the Directors needed to run the Company successfully. In its review, the RC considers various factors including the Directors' fiduciary duties, time commitments expected of them and the Company's performance. A remuneration policy was established with the objective to guide the Company in attracting, retaining and motivating highly qualified individuals to serve on the Board and key senior management as well.

The Board has established a formal and transparent Remuneration Policy as a guide for the Board and RC to determine the remuneration of Directors and/or senior management of the Company.

For the FYE 2019, the total Directors' fees payable to the Non-Executive Directors amounting to RM87,000 have been recommended to the shareholders for approval at the Company's forthcoming AGM.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee ("AC")

The primary objective of the AC is to assist the Board in discharging its responsibilities relating to financial accounting and reporting matters. In compliance with the MMLR and the Code, the AC comprises three (3) Directors, a majority of whom are Independent Non-Executive Directors:-

Audit Committee Members
Low Koon Min *(Chairperson)*
Mohd Rasli bin Muda *(Appointed on 28 November 2019)*
Wong Sak Kuan *(Appointed on 28 November 2019)*
Kushairi bin Zaidel *(Resigned on 1 July 2019)*
Iskandar Zurkanain bin Mohamed *(Resigned on 28 November 2019)*

The membership of the AC, summary of the works, functions of the of AC in relation to the external auditors and the number of meetings held since the previous financial year end as well as the attendance of each member are shown in the Audit Committee Report of this Annual Report.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (continued)

Financial Reporting

The financial statements of the Group were prepared in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act 2016.

The Board is committed to provide a balanced, clear and comprehensive assessment of the Group's performance, position and prospects primarily through the annual financial statement, quarterly financial reports and corporate announcements on significant developments to the shareholders.

The AC assists the Board in overseeing the financial reporting process and ensuring the quality of the financial reporting by the Group. The AC reviews and monitors the accuracy and integrity of the Group's annual and quarterly financial statements for announcement to the public within stipulated time frame.

In reviewing all the published annual and quarterly financial statements during the FYE 2019, the Directors took due care and reasonable steps to ensure compliance with accounting standards in all material aspects. For this purpose, the Director are updated and briefed by the External Auditors on current accounting practices, new MFRS, amendments/improvements to MFRSs, new IC Interpretation (IC Int) and amendments to IC Int that have been issued but have yet to be effective.

Risk Management and Internal Control

The Board recognizes the importance of having an effective governance embedding risk management and internal control processes, and acknowledges its overall responsibility for maintaining a sound system of internal control covering not only financial controls but also relating to operational, compliances and risk management to safeguard shareholders' investments and the Group's assets.

The Statement on Risk Management and Internal Control is set out in this Annual Report.

The Group has the policy to outsource its internal audit function to external professional services firm, to assist the AC and Board in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system and risk management.

The Internal Auditors shall conduct regular review and appraisal of the effectiveness of the governance, risk management and internal control process within the Group. The appointed Internal Auditors report directly to the AC. They are given full access to all the documents relating to the Company's and Group's governance, financial statements and operational assessments.

The Board acknowledges that the risks management and internal control are an integral part of good governance. Risk is inherent in all business activities. It is however, not the Group's objective to eliminate risk totally but to provide structural means to identify, prioritize and manage the risks involved in all the Group's activities and to balance between cost and benefit of managing and treating risks, and the anticipated returns that will be derived from.

During the financial year under review, the appointed Internal Auditors had conducted a review on the Risk Management and Internal Control Systems of the Company.

PRINCIPAL C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

General Meetings

The AGM remains the principal forum for dialogue with the shareholders where they are encouraged to meet Board to have greater insight into the Group operations. Shareholders who are unable to attend are allowed to appoint proxies to attend, speak and vote on their behalf. At the AGM, shareholders are given the opportunity to raise questions on the Group's activities and prospects as well as to communicate their expectations and concerns to the Company. The Board and the Management together with the External Auditors and Company Secretary are available to provide feedback and responses to the questions raised by shareholders during the meeting.

The notice of the Thirty-Fourth AGM of the Company was given to the shareholders at least twenty-one (21) days before the AGM which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy to attend and vote on their behalf. In line with the recommendation under the Code, the notice for the forthcoming Thirty-Fifth AGM will be sent to the shareholders at least twenty-eight (28) days before the date of the AGM as well.

Extraordinary General Meeting ("EGM') is held as and when shareholders' approvals are required on specific matters.

The Company has always made the necessary preparation for poll voting for all resolutions tabled at the AGM and EGM. The Company will explore the suitability and feasibility of employing electronic means for poll voting.

Pursuant to the Paragraph 8.29A(1) of MMLR of Bursa Securities, all resolutions deliberated during the general meeting will be put to vote by way of poll and the voting results will be released to Bursa Securities on the same day.

Communication with Stakeholders

The Board recognizes the importance of being transparent and accountable to the Company's stakeholders and as such has various channels to maintain communication with them. The annual report, quarterly announcements on financial results, relevant announcements on the Group's business and activities, as well as the Company's website are the primary mode of communication to all its stakeholders.

The Company is committed to upholding high standards of transparency and promotion of investor confidence through the provision of comprehensive, accurate and quality information on a timely and even basis.

The Company recognizes the importance of communicating with its shareholders and does this through the Annual Report, AGM and announcements via Bursa Securities. During the AGM, sufficient time will be allocated for shareholders to ask questions about the Group and its operations.

The Company's website, www.kfmb.com.my, is established for the shareholders and stakeholders to access information regarding the Group. Information on the website includes amongst others the Group's corporate structure, main business activities and announcements to Bursa Securities.

AUDIT COMMITTEE REPORT

The members of the Audit Committee ("AC" or "the Committee") of the Company are pleased to present their report for the financial year ended 30 September 2019.

The current members of the AC are as follows:-

Members	Designation
Low Koon Min (Chairperson)	Independent Non-Executive Director
Mohd Rasli bin Muda (Member)	Independent Non-Executive Chairman
Wong Sak Kuan (Member)	Non-Independent Non-Executive Director / Deputy Chairman

The Company has complied with Paragraph 15.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, which requires all members of the Committee to be Non-Executive Directors with a majority of them being Independent Directors. In addition, the AC Chairperson, Ms. Low Koon Min, is a member of the Chartered Institute of Management Accountants and Malaysian Institute of Accountants.

The Terms of Reference of the Committee can be assessed from the corporate website of the Company at www.kfmb.com.my.

Meetings

The Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. As part of the duty to foster open communication, the internal auditors and a representative(s) of the external auditors (if required) will normally attend the meetings. Other Board members and senior management staff may attend upon invitation by the Committee. The Company Secretary or any other person appointed by the Committee for this purpose shall act as Secretary for the Committee and as a reporting procedure, the minutes shall be circulated to all members of the Committee and the Board.

A quorum shall be two members, both being Independent Directors and one of whom shall be the Chairman of the AC.

During the financial year under review, the AC held a total of five (5) meetings. Details of attendance of the Committee members are as set out below:

Committee Members	Attendance
Low Koon Min (Appointed on 28 January 2019)	3/3
Mohd Rasli bin Muda (Appointed on 28 November 2019)	–
Wong Sak Kuan (Appointed on 28 November 2019)	–
Kushairi bin Zaidel (Resigned on 1 July 2019)	4/4
Iskandar Zurkanain bin Mohamed (Resigned on 28 November 2019)	5/5

Summary of works for the financial year ended 30 September 2019

The summary of works undertaken by the Committee for the financial year ended 30 September 2019, amongst others, included the following:-

(a) Reviewed the unaudited quarterly financial statements and the annual audited financial statements of the Company and of the Group and recommending the same for approval by the Board upon being satisfied that the financial reporting and disclosure requirements of the relevant authorities have been complied with;

(b) Reviewed with the external auditors on the audit planning memorandum, results of the audit, the audit report and the management letter, including management's response;

(c) Reviewed internal audit reports presented and considered the findings on the Risk Management and Internal Controls of the Group through the review of an internal audit report tabled and management responses thereof;

(d) Reviewed with the External Auditors on the Statement on Risk Management and Internal Control for inclusion in the Annual Report;

(e) Reviewed the related party transactions on quarterly basis to ascertain that the disclosure procedures are established to monitor the transaction, if any; and

(f) Self-appraised the performance of the Committee and the performance of the External Auditors for the financial year ended 30 September 2019.

INTERNAL AUDIT FUNCTION

The internal audit functions of the Group, as an integral and essential part of risk management process, have been outsourced to a professional firm to maintain independence and attain efficiency in the review and maintenance of the systems of control. The internal audit monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlight significant findings in respect of any non-compliance. The annual audit plan will be reviewed and approved by the Audit Committee and the findings of the audits will submit to the Committee for review. The summary of work of the internal audit function is disclosed at the Statement of Risk Management and Internal Control.

STATEMENT ON RISK MANGEMENT
AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code on Corporate Governance requires the Board of Directors ("Board") to maintain a sound system of risk management and internal control to safeguard Shareholders' interests and the Group's assets. The Board of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad) ("LKFM") is committed to maintaining a sound system of internal control and effective risk management and confirms that there is an ongoing process of identifying, evaluating and managing all significant risks faced by the Group that has been in place for the financial year and up to the date of approval of this Statement.

Pursuant to paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Securities ("MMLR"), the Board is pleased to present herewith the Statement on Risk Management and Internal Control which outlines the nature and scope of risk management and internal control for the Group for the financial year ended 30 September 2019.

BOARD'S RESPONSIBILITIES

The Board recognizes the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility in maintaining a sound, adequate and effective internal control and risk management system within the Group to ensure good corporate governance. The Group's risk management and system of internal controls are structured to provide reasonable assurance to achieve the followings:

- Effective and efficient operations;
- Accuracy and timeliness of financial reporting;
- Compliance with applicable laws and regulations; and
- An environment to promote integrity, good ethics and conduct.

The process is regularly reviewed and updated by the Board and is in accordance to the Statement on Risk Management and Internal Control: Guidance for Directors of Listed Issuers. The Audit Committee assists the Board in reviewing the adequacy and effectiveness of the system of internal controls and risk management and has received assurance from the Management that the system is operated adequately and effectively in all material aspect during the financial year.

However, due to inherent limitations in any internal control system, such system is designed to manage rather than eliminate risks that may impede the achievement of the Group's business and corporate objectives. In this regard, the systems and procedures put in place are aimed at minimizing and managing risks. All aspects of financial, organizational, operational, compliance controls as well as risk management procedures are contained within this system of risk management and internal control.

RISK MANAGEMENT

Risk management is firmly embedded in the Group's management system. It clearly defined the authority, responsibility and accountability in implementing the risk management process and internal control system. The Board regards risk management as an integral part of the Group's business operations. The Group had established a risk management process to identify, evaluate and manage significant risks faced by the Group and formulate appropriate measures to address those risks.

The responsibility for reviewing the adequacy and effectiveness of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and effectiveness of the internal control system and the governance system through independent reviews performed by the internal audit function and external auditors. The Management assists the Board in implementing the process by identifying, evaluating and managing significant risks applicable to their respective areas of business and formulating suitable internal controls to mitigate and control those risks.

Statement on Risk Management and Internal Control (continued)

INTERNAL CONTROL SYSTEM

The Board is committed to maintain a strong control structure and environment for the proper conduct of the Group's business operations. The key elements are as follows:

- Organization and definition of the management structure of Group including areas of responsibilities and segregation of authorities and limits;
- The Board and Audit Committee meet on a quarterly basis and on an ad-hoc basis where there is a need arise to discuss matters raised by the Management, on strategic and operational matters inclusive of potential risks and control issues;
- The Board had delegated the responsibilities to several Committees and to the Management of the Company to implement and monitor designated tasks;
- Performance reports are provided to the Board to facilitate review and monitoring of financial performance;
- Proper guidelines within the Group for recruitment and selection, compensation and benefits, performance management, training and development, employee communication and human resource administration;
- Structured training and development programme conducted both internally and externally covering all levels of staff to upgrade their knowledge, skill and competency;
- Segregation of duties to reduce the scope for error and to prevent collision;
- Health and safety policies and procedures are in place to assist in maintaining a safe working environment for all employees;
- Sufficient insurance coverage on major asset classes is in place to ensure the Group's assets are adequately covered against risks that can results in material losses;
- Working team are set up from time to time to address business and operational issues to meet the business objectives and operational requirements of the Group;
- Policies and procedures are systematically documented and are in place to guide employees in their daily operations; and
- Senior Management regularly meet and communicate with employees of different levels to obtain first-hand knowledge of significant operational matters and risks.

The overall system of internal control is satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require public disclosure. The Board continues to review and implement measures to strengthen the internal control environment of the Group.

INTERNAL AUDIT FUNCTION

The Group's internal audit function has a policy to outsource to external professional services firm, to assist the Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

The total cost incurred during the current financial year for internal audit function of the Group was RM33,250 (2018: RM63,000).

During the financial year under review, the appointed Internal Auditors, IA Essential Sdn Bhd, had conducted an independent evaluation on the risk management and internal control systems in LKFM. The report on the review of Risks Management and Internal Controls together with the recommendations for improvement was submitted to the Company.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the Bursa Malaysia Securities Berhad's Listing Requirements, the external auditors have performed a limited assurance engagement on this Statement for inclusion in the Annual Report of the Group for the financial year ended 30 September 2019. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the system of risk management and internal control of the Group.

The Board is of the view that the Company's risk management and internal control system is operating effectively and adequately, in all material aspects, and have received the same assurance from the Management of the Company. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company had been in place throughout the financial year ended 30 September 2019 and up to the date of approval of this Statement. The Board maintains an on-going commitment to continue taking appropriate measures to enhance and strengthen the risk management and internal control system of the Group.

SUSTAINABILITY STATEMENT

Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad) ("LKFM") acknowledges the importance of the business play a vital role to bring about impactful sustainable change and its responsibility not only towards its stakeholders, but also to the wider community it operates.

The Board of Directors ("Board") is aware of its responsibilities towards business sustainability and while putting greater emphasis in balancing economic viability with preservation of environment and social responsibility.

With a view of embedding sustainability elements in its work culture, the Board has been formulating strategies to foster on the sustainable use of scare resources and the adoption of responsible business practices that include good governance, clear transparency and proper employees' development.

SUSTAINABILITY STRATEGY

The Board of Directors who determine the sustainability strategy, provides an oversight of our corporate sustainability polices and performance. The Management oversees the implementation of the organization's sustainability approach and ensures that key targets are being met.

The Board is committed to play a positive role on its corporate responsibility initiatives to create and add value towards the environment, the work place, the community and the market place.

For Economic aspect, the Company targeted to build financial strength and deliver sustainable shareholders' return.

For Environment aspect, the Company targeted to mitigate any negative environment impact and conserve the surrounding environment.

For Social aspect, the Company targeted to foster a robust, diverse and capable workforce, and create a safe workplace.

Through this, LKFM is able to incorporate good sustainability practices and initiatives into its day-to-day business operations and contribute to the betterment of the society and environment.

STAKEHOLDERS ENGAGEMENT

Throughout the financial year, LKFM has actively engaged with different stakeholders through various channels as indicated below so that we can offer timely responses that anticipate and address their concerns. Stakeholders' engagement is a collaborative process that is critical to the success of the Company. The input and feedback garnered helps the Group to formulate improvement plans, innovate our products and services, as well as anticipate future market demands.

Stakeholders	Engagement Approach
Employees	Training & developments programmes for staff, policies & procedures, annual performance evaluation, Inter-departmental meetings, social activities, dialogue and engagement.
Shareholders	Regular updates on corporate website, annual general meeting and extra-ordinary general meeting, announcements released to Bursa Malaysia, quarterly report and annual report.
Regulators	Regular updates on regulations, meetings, briefing, seminars and / or conferences, support government initiatives. licensing, audit and inspection.
Customers	Meetings, corporate website, customers service, customer survey and complaint management.
Vendors	Vendor audit, meetings, evaluation to conform to our ISO standards and vendor relationship management.

STAKEHOLDERS ENGAGEMENT (continued)

The Company has identified material sustainability matters on the context and strategy with considerations relevant to stakeholders' requirements and expectations. Moving forward, to keep abreast with critical issues, we will review periodically our material issues against the changing business environment, stakeholders' opinion, and emerging global and local trends.

The Company has defined its commitment to Corporate Sustainability across five impact areas and has undertaken the following initiatives as an integral part of the business operations and practices by contributing to the welfare of its employees, stakeholders, the general public and the environment it operates.

THE ENVIRONMENT

As the trend on depletion of earth's natural resources increased and global climate change issues took place frequently, the environmental sustainability becomes paramount important. We recognize the potential environmental impacts of our business and are committed to operate in manner that respect the environment and stewards limited resources well. Hence, it is essential to embed environmental sustainability principles into our business operations and practices with the objective of safeguarding shareholders' interest whist protecting the environment.

LKFM is committed to seek continuous improvements in our operations to minimize any negative impact on the environment. We will ensure that our business activities are conducted in compliance with the applicable environmental rules and regulations.

The initiatives adopted by LKFM to achieve a balance between economics, environmental and social considerations in its production processes and business operations are as below:

- Flour dust from production process are recycled and re-milling to ensure proper method of disposing production waste from its process;
- To recycle used engine oil by disposing to registered waste oil company for recycling;
- The efficient use of energy, water and raw materials in our operations; and
- The emphasis of work culture on "Go Green' policy at workplaces.

Responsible waste management and disposal

The Group's operations continue to comply with local environmental laws and regulations. This policy is properly communicated to all employees. They are encouraged to be proactive and forthcoming in managing and reporting environmental related issues and complaints. The Management will continue to review and improve the current environmental management system and practices.

THE WORKPLACE

The Company believes that the wellbeing of its employees is important as employees are the backbone of any business and are central to the functioning of the business operations. They play a vital role in the success and sustainability of the Company.

LKFM acknowledges the importance of enabling and maintaining a conducive and inclusive work environment for its employees. Hence, employees of different background, gender, age and ethnicity are given fair opportunities for career growth, fair performance evaluation and compensation programmes which commensurate with their rank and level of employment.

THE WORKPLACE (continued)

In fulfilling its responsibility as a caring employer, LKFM places great emphasis on building long lasting relationships with its employees.

The following initiatives have been adopted by the Group:

(1) Employees' Welfare and Well-being

- Medical benefits;
- Regularly updating of human resource policies and staff benefits;
- Encouraging a healthy and building camaraderie among staff by providing support for social activities;
- Cultivating a transparent and inclusive working environment for all employees, as well as providing an open-door communication policy to encourage employees to report grievances; and
- Equal employment opportunity in terms of gender and ethnicity across all levels of employment.

(2) Safe, Healthy and Conducive Work Environment

Health and safety at work place is given utmost priority in the Group while maintaining a comfortable and conducive work environment through the following initiatives:

- The setting up of Occupational Safety and Health Committee to initiate various health and safety programmes to enhance employees' awareness at work place;
- Compliance with applicable safety, health and environmental laws and regulations;
- Necessary tools and protective gears are provided to employees where needed to ensure that they are adequately protected at work place;
- Ensuring a safe workplace with 24 hours' security surveillance;
- Constant updating and promoting the awareness of safety precautions and health issues;
- Train and hold individual employees accountable for their area of responsibility;
- Maintaining a workplace that is free from theft, violence, harassment, intimidation and other unsafe and disruptive influences due to internal or external conditions; and
- Periodically review the occupational safety and health practices on effectiveness and suitability.

(3) Training and development

The Group recognizes the importance of human capital development to meet challenges. It continues to build and upgrade its human resources to ensure that they can realize their full potential with the following efforts:

- To engage in external training workshops for staff on both technical related skills and soft management skills;
- Continuous need-based training is critical to ensure that employees have the knowledge and skills to stay relevant amid changing workplace demands;
- Quality sharing sessions across the Group to inculcate quality mindset to achieve high-level of customer satisfaction;
- Participate in the international trade fairs/ exhibitions to broaden the knowledge base and exposure of its employees to keep abreast on new developments in their respective field of expertise; and
- New employees will participate in new employees' orientation as well as on-site visit to get clear insights into the Group's operations.

(4) Recreational, Sports and Leisure Activities

The Group encourages its employees to participate in sports and recreational activities in order to cultivate a good work-life balance culture. This would lead to a more productive workforce team and develop a caring, harmonious, cohesive and vibrant team-spirit based working environment.

THE WORKPLACE (continued)

(5) Retention, Talent Management and Succession Planning

The Group recognizes the importance of retaining key employees as one of the crucial elements for the success of its business. In line with this, competitive reward packages are in place and regularly reviewed to attract, retain and motivate the right talents within the Group. The Group has always emphasized on fair equal employment practices.

Succession planning are put in place for critical positions to ensure sustainability in terms of continuous effective and efficient operations within the Group and a healthy leadership pipeline. We will continue to groom and retain a diverse and robust talent pool and right grooming to ensure our employees are ready to meet future succession planning and development as well as being adaptable to change.

THE COMMUNITY

The Group has initiated various activities in fulfilling its corporate responsibility on enhancing community sustainability such as by encouraging its employees to participate in voluntary works for charitable organizations and donations from the Company. The Group is committed to provide continuous support to activities carried out by local charities and organizations.

Employee and community engagement, teamwork and camaraderie outside the workplace are essential in building a dynamic and committed workforce. In turn, the employees feel a sense of belonging to the Group, motivating them to take ownership of their roles and responsibilities, respecting the need for work-life integration and overall wellbeing.

The Group strive to build relationship on trust by way of social initiatives. Other than contributions for the benefits of local community, the Group also creates and offers priority in job opportunity to local community.

We trust the value of volunteerism to our community will provide caring character and emphatic among employees and community.

THE MARKET PLACE

The Group has placed great emphasis to carry out activities with high ethical standards to promote responsible practices among its investors, suppliers and customers in order to achieve a sustainable development in market place.

(1) Investors

In order to establish trust and confidence of our shareholders, the Group strive to enhance corporate value via various practices such as maximizing shareholders’ wealth through continuous efforts to achieve operational excellence.

The Group ensures that the disclosure and dissemination of all material information in a timely, open, fair and transparent manner.

The Group is committed to maintain a robust system of corporate governance and transparent business practices and to implement policies that promote ethical behavior and conducting business responsibility through high standards of business ethics.

We constantly review our policy to ensure the Group is managed effectively and ethically with adequate control mechanisms to manage risks and deliver accountability and sustainability.

Further, it also engages with its shareholders and investors through various channel of communication such as general meetings of shareholders, accessibility in the public domain and regular updates on our website.

THE MARKET PLACE (continued)

(2) Suppliers

Reliable suppliers and vendors are essential for the smooth running of our business operations. It is important to work closely with these suppliers and vendors to establish a long-term working relationship and to realize mutual growth via mutual trust.

We also conduct site visits on selected suppliers, in-depth suppliers' audit and practice standard and equitable procedures in vendor evaluation to ensure that products and services supplied are in accordance to our material requirements and standards.

Further, we places great emphasis to engage with local suppliers and purchase locally where possible in support of the local economy.

All procurement activities are guided by our documentation procedures as prescribed by ISO 9001:2015 to ensure that our suppliers comply with our purchase raw material specifications and satisfy our production requirements.

(3) Customers

The Group has continuously sought rooms for improvement in order to create value for its customers via competitive pricing without compromising on quality of its products and services and also the interest of its shareholders.

The above policy enabled the Group to develop a long-term business relationships and partnerships with its customers.

In achieving this, the Group has always initiated the followings:

- Strict quality control from production to ensure customers receive consistent and good quality products and services, efficient warehousing for prompt delivery of our products and after-sale services to its customers;
- To ensure operational excellence in order to reduce overall costs and share these benefits with our customers;
- Regular customer surveys to obtain feedback from ordering process to delivery, product quality and services; and
- Regardless of the economic weather, the benchmark for best value is set so that our customers get the best possible deals with no compromise in quality and services.

COMMITMENT TO ANTI-CORRUPTION

We are committed to maintain a high standard of integrity and accountability throughout the workplace and have put in place policies such as the Whistleblowing Policy, Corporate Standards & Code of Conducts to address and manage malpractices and corruption within the Group.

CONCLUSION

Moving forward, the Group are committed to promote good corporate governance standards and building sustainability. The Group will continue to use its best efforts to build sustainable practices on every aspect of its business where possible for the benefits of future generations and remain steadfast in achieving excellence in its corporate responsibility.

BOARD OF DIRECTORS' PROFILE

Mohd Rasli bin Muda ("En. Rasli"), a Malaysian, male, aged 58, was appointed to the Board on 28 November 2019 as an Independent Non-Executive Chairman. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company.

He holds a Bachelor's Degree in Economic (Applied Economics) from University of Malaya.

Encik Rasli started his career in 1984 with Malaysian Investment Development Authority ("MIDA"), a government agency as an economist and was responsible for the promotion and coordination of industrial development in Malaysia. During his tenure with MIDA, he has served in various industries divisions and offices amongst others such as:

- Director of MIDA Terengganu State Office
- Director of MIDA (Consul Investment, Consulate General of Malaysia), Los Angeles, USA. He was responsible for promoting and facilitating Foreign Direct Investments from West Coast of USA to Malaysia.
- Director, Corporate Management Services Division
- Director, Business & Professional Services Division
- Director, Food Technology and Resource Based Industries Division.

En. Rasli retired from MIDA in August 2019 after serving for 34 years.

Wong Sak Kuan ("Mr. Wong"), a Malaysian, male, aged 51, was appointed to the Board on 28 November 2019 as a Non-Independent Non-Executive Director / Deputy Chairman. He is also the member of Audit Committee and Remuneration Committee of the Company.

Mr. Wong graduated with a Diploma in Civil Engineering from the Federal Institute of Technology (FIT) in 1990.

Upon graduating, Mr. Wong joined his family's construction business erecting factory buildings and warehouses for a public listed paper mill group of companies. In 1995, he steered the construction company into various residential, commercial and industrial development projects in Selangor and Penang. He has more than 30 years of experience in the construction and development industry.

Apart from the construction activities, he also owns businesses in various industries such as trading, recycling and paper roll rewinding services, transportation and workshop and Food & Beverage ("F&B").

Mr. Wong is currently the Group Managing Director of Sing Foong Niap Group of Companies. He is also the controlling shareholder and Managing Director of Lotus Essential Sdn Bhd. Mr. Wong also sits on the board of several private limited companies.

Lee Wai Fun ("Ms. Lee"), a Malaysian, female, aged 49, was appointed to the Board on 28 November 2019 as an Executive Director cum Chief Executive Officer of the Group.

Ms. Lee is a member of Chartered Institute of Management Accountants (CIMA) and Malaysian Institute of Accountants (MIA).

She started her career in the management accounting field in 1994 and has since garnered over 25 years of experience in finance, administration and management functions from several industries such as manufacturing, trading, recycling, construction & development, transportation and F&B.

Ms. Lee joined Sing Foong Niap Group as Finance Manager in 2007 and was promoted to Group General Manager in 2012. She is responsible for overseeing the management and business operations of Sing Fong Niap Group.

In 2009, she co-founded Lotus Essential Sdn Bhd, a trading company that imports and distributes tapioca starch, corn starch and coal to the local food processing and manufacturing based companies. In August 2016, she helped established a Recycling division by acquiring four (4) recycling companies and one (1) paper roll rewinding services' company. Ms. Lee is currently the Executive Director of Lotus Essential Sdn Bhd and sits on the board of several private limited companies.

Board of Directors' Profile (continued)

Low Koon Min ("Ms. Low"), a Malaysian, female, aged 48, was appointed to the Board on 28 January 2019, as an Independent Non-Executive Director. She is also the Chairperson of the Audit Committee and Nomination Committee and a member of the Remuneration Committee of the Company.

Ms. Low is a member of the Chartered Institute of Management Accountants and Malaysian Institute of Accountants.

Ms. Low started her career as a Finance Manager in Mitsumi Electric Sdn Bhd, a subsidiary of Mitsumi Electric Co Ltd (a public listed company in Japan). In 1998, Ms. Low joined Mattel Southeast Asia Pte Ltd and moved to Mattel Southeast Asia (Regional Office) Sdn Bhd in 2002 as a Financial Specialist. Mattel is a toy company listed in Nasdaq Stock Exchange of United States of America.

In 2011, Ms. Low joined Lee Ong & Partners, a legal firm as an Office Manager. She is also the Company Secretary to IWB Consultancy Sdn Bhd, a Selangor state owned company to raise woman socio-economy and capability of women in leadership and entrepreneurship.

Ms. Low attended all three (3) Board Meetings held during the financial year ended 30 September 2019.

Yau Ming Teck ("Mr. Yau"), a Malaysian, male, aged 48, was appointed to the Board on 28 November 2019 as a Non-Independent Non-Executive Director. He is also a member of the Nomination Committee of the Company.

Mr. Yau graduated from Monash University, Melbourne with an Economic Degree in 1993. He is a qualified Certified Practicing Accountant ("CPA") of the CPA Australia and a Chartered Accountant of Malaysian Institute of Accountants.

He started his career in 1994 with Coopers & Lybrand, Insolvency & Corporate Division and handles a wide portfolio of clients with diverse background and industries during his three years with the firm.

In 1996, he joined a Malaysian Main Board listed company as an Executive, Special Projects and last served as a Financial Controller of another Main Board public listed company in Bursa Securities in 2003. During his tenure with the public listed companies, he had predominantly taken charge of various corporate exercises and his skill in the area of corporate finance, financial management and strategic planning honed over 15 years has brought him to his private practice in year 2004. He has the expertise in corporate and financial advisory in the areas of corporate finance, mergers & acquisitions and restructuring exercises with the focus of the business in People's Republic of China, Singapore and Australia.

Mr. Yau currently sits on the Board of USM-Neiken Group Berhad and HLT Global Berhad, as well as several private limited companies.

Notes:-

1. *None of the Directors have family relationship with any Directors and/or major shareholders of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad), save for Mr. Wong Sak Kuan, who is the major shareholder of the Company and Mr. Yau Ming Teck, who is the substantial shareholder of the Company.*

2. *None of the Directors have any conflict of interests with the Company.*

3. *None of the Directors have been convicted of any offences in the past five (5) years or been imposed on any public sanction or penalty by relevant regulatory bodies during the financial year ended 30 September 2019, other than for traffic offences.*

4. *Save as disclosed above, none of the Directors have any other directorship in public companies and listed issues.*

KEY MANAGEMENT'S PROFILE

Tan Kok Kiat, a Malaysian, male, aged 48, is the Financial Controller of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad ("LKFM")). He is a member of the Association of Chartered Certified Accountants (ACCA). He has more than 23 years of experience as a professional accountant. In year 2017, he joined TC Management Services Corporation Sdn Bhd, a subsidiary of Tan Chong Motor Holdings Berhad ("TCMH") as a senior Finance Manager and is responsible for the financial functions of TCMH group. He left and joined Lotus Essential Sdn Bhd in February 2019 as a Finance Manager. In October 2019, he was promoted to Financial Controller. In December 2019, he was transfer to LKFM as Financial Controller and is primarily responsible for accounting and financial functions of the Group.

Yap Shyan Meng, a Malaysian, male, aged 54, is the General Manager of LKFM. He obtained his Bachelor of Science (Aeronautical Engineering) Degree in 1990 from Wichita State University, United States of America. He started his career in 1991 when he joined AIROD Sdn Bhd as Aeronautical Engineer. He left in 1996 to join Colgate-Palmolive (M) Sdn Bhd as Team Leader, where he was responsible for team development and production management. In 1999, he joined See Hau Industries Sdn Bhd, a manufacturer of plastic pallets, as Factory Manager. Subsequently in 2003, he left to join Linatex Sdn Bhd as Production Manager for a year and joined MAPA Gloves Sdn Bhd as Plant Manager in 2004. In 2009, he joined ICI Paints Sdn Bhd as Production Manager before leaving in 2010 to A.W. Faber Castell Sdn Bhd as Factory Manager in 2011. In 2012, he joined Megmaju Sdn Bhd as Factory Manager and left in 2015 to join Prestasi Flour Mill Sdn Bhd as Plant Manager. He then left the company in 2019 and joined LKFM as General Manager on 14 February 2019 where he is responsible for managing the day-to-day wheat flour milling operations of the Group.

Francis Chong Kit Min, a Malaysian, male, aged 56, is the National Sales Manager of LKFM. He obtained his Diploma in Civil Engineering from the Federal Institute of Technology, Kuala Lumpur in 1983. His career started in 1984 when he joined Johor Bahru Flour Mill Sdn Bhd as Laboratory Assistant, where he was involved in quality control. In 1991, he joined LKFM as Sales Representative in Johor for a year before leaving to join Oceanborne Agencies Sdn Bhd, a shipping company, in 1993 as Sales Executive. Subsequently in 1993, he returned to LKFM as Marketing Executive where he was later promoted to Regional Marketing Executive in 1997. In 2003, he was further promoted to Branch Manager responsible for overseeing the Johor market, and subsequently, he was promoted to Area Sales Manager in 2006. In July 2017, he was promoted to National Sales Manager and is responsible for the overall sales functions of the Group.

Mohd Ruzi Bin Mohd Salleh, a Malaysian, male, aged 52, is the Production Manager of LKFM. He obtained his Diploma in Agriculture from Universiti Pertanian Malaysia in 1989. His career started in 1990 when he joined his family retail business for five (5) years. In 1995, he joined LKFM as Miller and was later promoted to Senior Miller in 2007. Subsequently, he was promoted to Assistant Mill Manager in 2013 and then to Production Manager in July 2017. He is currently responsible for overseeing the production operations in LKFM.

Mohd Faizal Bin Aliyar, a Malaysian, male, aged 36, is the Maintenance Manager of LKFM. He obtained his Degree in Mechanical Engineering from University Tenaga Nasional in 2007. His career started in 2008 when he joined Felda Global Venture Sdn Bhd as Assistant Manager for ten (10) years. In 2018, he left Felda Global Venture Sdn Bhd and joined LKFM as Maintenance Manager on 5 February 2018. He is primarily responsible for overseeing the plant operations and maintenance in LKFM.

Key Management's Profile (continued)

Goh Sheau Theng, a Malaysian, female, aged 40, is the Finance Manager of LKFM. She obtained her Bachelor of Accounting (Honours) Degree in 2005 from Northern University of Malaysia. She is a member of the Malaysia Institute of Accountants since 2008. Her career started in 2005 as Audit Associate at Ernst & Young, where she was involved in statutory audit of companies in various industries. She was later promoted to Senior Associate in 2008. In 2009, she left and joined Netwise Sports Sdn Bhd as Finance Manager before leaving to join Gema Padu Sdn Bhd as Accountant in 2010. Subsequently in 2011, she left and joined Metroport Air Services Sdn Bhd as Accounts Manager for two (2) years. Between 2013 and 2017, she was with I.Star Ideas Factory Sdn Bhd as Accounts Manager. In May 2017, she joined LKFM as Finance Manager and is primarily responsible for accounting and financial functions of the Group.

Kevin Nathan A/L Arokiaraj, a Malaysian, male, aged 37, is the Quality Assurance/Quality Control Manager of LKFM. He obtained his Bachelor of Science (Biology) Degree in 2009 from St Cloud State University, United States of America. He started his career in 2008 when he joined Schroeder Milk Co., a dairy manufacturing company in the United States of America as Microbiologist Lab Technician. He left in 2009 and joined 3M Co., as Quality Assurance Microbiologist. He returned to Malaysia in 2013 and joined Siri Tulin Sdn Bhd, a manufacturer and supplier of agricultural spraying equipment as Total Quality Manager for two (2) years. In 2015, he joined PT Siri Tulin Indojaya in Jakarta, Indonesia as Operations Manager. On 5 November 2018, he returned to Malaysia to join LKFM as Quality Assurance/Quality Control Manager and is primarily responsible for the overall quality assurance and control operations of the Group.

Notes:-

1. None of the key management personnel have any family relationship with any Directors and/or major shareholders of LKFM.

2. None of the key management personnel have any conflict of interests with the Company.

3. None of the key management personnel have been convicted of any offences in the past five (5) years or been imposed on any public sanction or penalty by relevant regulatory bodies during the financial year ended 30 September 2019, other than traffic offence.

4. None of the key management personnel have any directorship in public companies and listed issuers.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

Pursuant to the Companies Act 2016 and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors ("Board") are required to prepare the financial statements for each financial year which have been made out in accordance with the applicable Financial Reporting Standards in Malaysia and to give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year.

In preparing the financial statements, the Board has undertaken the following measures:-

- Adopted suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured that all applicable accounting standards have been followed; and
- prepared the financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy on the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 2016.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

The Directors confirmed that they have complied with the above requirements for the annual financial statements for the financial year ended 30 September 2019.

ADDITIONAL COMPLIANCE **INFORMATION**

(1) Audit Fees and Non-Audit Fees

The amount of audit and non-audit fees paid or payable to firms or corporation affiliated to the External Auditors by the Company and the Group for the financial year ended 30 September 2019 ("FYE 2019") are as follows: -

Details of fee	Group RM'000	Company RM'000
Statutory audit fees	53	52
Non-audit fee	5	5

(2) Material contracts

(i) On 18 April 2019 and 20 September 2019, LKFM has entered into a supplemental Business Collaboration Agreement with Lotus Essential Sdn Bhd ("LESB") for the purpose of combining resources to develop and carry out flour milling activities, trading of flour, manufacturing, packing and distribution of industrial and food grade starches.

(ii) On 18 April 2019, LKFM has entered into a further supplemental Debt Conversion Agreement, with LESB for the settlement of advances and supplier's, credit to LKFM by LESB by way of issuance and allotment of the Settlement Redeemable Convertible Preference shares.

(iii) On 18 April 2019, LKFM has signed a Profit Guarantee with LESB whereby LESB has irrevocably and unconditionally warrant and guarantee to LKFM that the audited profit after tax ("PAT") of LKFM shall not be less than RM1.5 million for the FYE 2020 and at least RM2.5 million for the FYE 2021. On a combined basis, the guaranteed audited PAT for FYE 2020 and FYE 2021 shall be no less than RM4.0 million.

(iv) On 18 April 2019, LKFM has signed a Set-off Letter with LESB and the Placement Investor to set-off part of the net amount due to LESB arising from the advances and supplier's credit extended to LKFM to the Placement Investor pursuant to the Private Placement and the Rights Issue totalling RM16.374 million.

(v) On 10 September 2019 and 20 September 2019, LKFM has entered into further supplemental Debt Settlement Agreement, pertaining to the settlement of indebtedness pursuant to the debt settlement with the following parties (collectively known as "Scheme Creditors") :-

(a) MCC Capital Holdings Sdn Bhd;
(b) LH Asian Trade Finance Fund Ltd;
(c) Rich Asia Ventures Ltd; and
(d) Tepat Anggun Sdn Bhd

The Scheme Creditor agreed to accept seventy percent (70%) of the indebtedness as full and final settlement of the Indebtedness.

(vi) Underwriting Agreement dated 9 October 2019 was entered into between LKFM and the Joint Underwriters for the underwriting of the Underwritten Shares.

(3) Utilisation of Proceeds

At the Extraordinary General Meeting held on 27 May 2019, shareholders of the Company had approved the regularisation plan, which include, amongst others, the private placement, debt restructuring and rights issue. Based on the issue price of RM0.10 per share, the private placement and rights issue's exercise, on a collective basis, has raise total gross proceeds of RM34.114 million, after netting-off the total subscription moneys payable by the placement investor pursuant to the regularisation plan.

As at 24 December, 2019, the proceeds arising from the regularisation plan amounting to RM34.114 million and the status of the utilization of the proceeds were as follows:-

Purpose	Proposed Utilisation RM '000	Actual Utilisation RM '000	Balance RM '000	Estimated timeframe
Wheat flour business	21,414	–	21,414	24 months
Tapioca starch business	10,000	–	10,000	24 months
Estimated expenses in relation to Regularisation Plan	2,700	2,541	159	3 months
Total	34,114	2,541	31,573	

(4) Recurrent Related Party Transactions ("RRPTs")

The details of the Proposed Shareholders' Ratification and Shareholders' Mandate for the RRPTs are set out in the Circular to Shareholders dated 31 January 2020 which was despatched together with this Annual Report.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the year ended 30 September 2019

The Directors submit their report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 30 September 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company are flour milling and trading in its related products. The principal activities of the subsidiaries are described in Note 12 to the financial statements.

There was no significant change in the nature of these activities during the financial year.

CHANGE OF NAME

The Company had changed its name from Kuantan Flour Mills Berhad to Lotus KFM Berhad on 30 May 2019.

FINANCIAL RESULTS

	Group RM	Company RM
Loss for the year attributable to equity holders of the Company	(3,958,302)	(4,014,350)

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions except as disclosed in the financial statements.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

On 28 November 2019, the Company had successfully completed its regularisation plan with the listing and quotation of the followings on the Main Market of Bursa Securities:

- 27,290,000 placement shares issued to Wong Sak Kuan on 1 October 2019;
- 116,580,700 settlement shares issued pursuant to the debt settlement;
- 477,595,420 rights shares issued pursuant to the rights issue; and
- 297,088,060 warrants issued pursuant to the rights issue and debt settlement;

On 26 November 2019, 300,000,000 redeemable convertible preference shares ("RCPS") were allotted to Lotus Essential Sdn Bhd pursuant to the debt conversion.

Directors' Report (continued) for the year ended 30 September 2019

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR (continued)

The gross proceeds raised from the private placement and rights issue are as below:

	RM'000
Private placement	2,729
Rights issue	47,759
	50,488
Less: set off*	(16,374)
Total	34,114

	RM'000
Proposed utilisation of proceeds:	
- Working capital for:	
Wheat flour business	21,414
Tapioca flour business	10,000
- Expenses in relation to the regularisation plan	2,700
	34,114

* To settle RM16,374,000 out of the total outstanding advances and supplier's credit extended by Lotus Essential Sdn Bhd to the Company against the subscription money payable by the private investor, Wong Sak Kuan towards the private placement and rights issue.

SHARES AND DEBENTURES

The Company did not issue any new shares or debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end year, there were no unissued shares of the Company under options.

DIRECTORS

The Directors of the Company in office at any time during the financial year or since the end of the financial year are:

Low Koon Min	Appointed on: 28.01.2019
Yau Ming Teck	Appointed on: 28.11.2019
Lee Wai Fun	Appointed on: 28.11.2019
Mohd Rasli bin Muda	Appointed on: 28.11.2019
Wong Sak Kuan	Appointed on: 28.11.2019
Kushairi bin Zaidel	Resigned on: 01.07.2019
Iskandar Zurkanain bin Mohamed	Resigned on: 28.11.2019

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remunerations received or due and receivable by the Directors shown in the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholding under Section 59 of the Companies Act 2016, none of the Directors in office at the end of the year held any interests in shares in the Company and its related corporation during the financial year.

DIRECTORS' REMUNERATIONS

Details of the Directors' remuneration are set out in Note 8 to the financial statements.

None of the Directors or past Directors of the Company have received any other benefits otherwise than in cash from the Company during the financial year.

No payment has been paid to or payable to any third party in respect of the services provided to the Company by the Directors or past Directors of the Company during the financial year.

INDEMNIFYING DIRECTORS, OFFICERS OR AUDITORS

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been the Director, Officer or Auditor of the Company.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

- not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

- any contingent liability of the Group or of the Company, which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

In the opinion of the Directors:

- the loss of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except for the impairment loss of property, plant and equipment and unquoted investment of RM590,981 and RM249,137 respectively.

- no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the year and the date of this report which is likely to affect substantially the loss of operations of the Group and of the Company for the year in which this report is made.

SUBSIDIARIES

Details of the subsidiaries are set out in Note 12 to the financial statements.

LIST OF DIRECTORS OF SUBSIDIARIES

Pursuant to Section 253 of the Companies Act 2016, the list of Directors of the subsidiaries during the financial year and up to the date of this report, excluding Directors who are also Directors of the Company is Lee Chee Kiean and Iskandar Zurkanain bin Mohamed.

AUDITORS' REMUNERATIONS

Total amounts paid to or receivable by the auditor as remunerations for their services from the Company and its subsidiaries are disclosed in Note 6 to the financial statements.

In accordance with a resolution of the Board of Directors dated 24 December 2019.

Wong Sak Kuan
Director

Low Koon Min
Director

Kuantan

STATEMENT BY **DIRECTORS**

Pursuant to Section 251(2) of the Companies Act, 2016

We, Wong Sak Kuan and Low Koon Min, being two of the Directors of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad), do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 43 to 77 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 September 2019 and of their financial performance and cash flows for the year then ended.

In accordance with a resolution of the Board of Directors dated 24 December 2019

Wong Sak Kuan
Director

Low Koon Min
Director

STATUTORY **DECLARATION**

Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, **Goh Sheau Theng**, being the Officer primarily responsible for the financial management of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad), do solemnly and sincerely declare that the accompanying financial statements set out on pages 43 to 77 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Goh Sheau Theng

Subscribed and solemnly declared by the abovenamed Goh Sheau Theng, MIA CA 29594

At: Kuantan

On: 24 December 2019

Before me:

Commissioner for Oaths

No C108
Chan Chiu Wah
41, Jalan Mahkota
25000 Kuantan

STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
for the year ended 30 September 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Revenue	4	**58,603,867**	39,006,965	**58,603,867**	39,006,965
Cost of sales	5	**(57,523,939)**	(38,719,849)	**(57,523,939)**	(38,719,849)
Gross profit		**1,079,928**	287,116	**1,079,928**	287,116
Other operating income		**128,005**	4,493	**128,005**	4,493
Administrative expenses		**(3,434,924)**	(1,762,410)	**(3,490,714)**	(1,744,107)
Selling expenses		**(1,731,569)**	(1,433,787)	**(1,731,569)**	(1,433,787)
Loss before tax	6	**(3,958,560)**	(2,904,588)	**(4,014,350)**	(2,886,285)
Taxation	9	**–**	–	**–**	–
Net loss for the year, representing total comprehensive loss for the year		**(3,958,560)**	(2,904,588)	**(4,014,350)**	(2,886,285)
Attributable to:					
Equity holders of the Company		**(3,958,302)**	(2,903,054)	**(4,014,350)**	(2,886,285)
Non-controlling interests		**(258)**	(1,534)	**–**	–
		(3,958,560)	(2,904,588)	**(4,014,350)**	(2,886,285)
Loss per share attributable to equity holders of the Company (sen)					
Basic and Diluted	10	**(5.80)**	(4.25)	**–**	–

STATEMENTS OF FINANCIAL POSITION
as at 30 September 2019

	Note	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
Non current assets					
Property, plant and equipment	11	**14,519,075**	4,610,045	**14,519,075**	4,610,045
Investments in subsidiaries	12	**–**	–	**3**	5,109
Other investment	13	**2**	249,139	**2**	249,139
		14,519,077	4,859,184	**14,519,080**	4,864,293
Current assets					
Inventories	14	**9,998,044**	4,075,604	**9,998,044**	4,075,604
Receivables, deposits and prepayments	15	**8,309,718**	5,298,038	**8,312,892**	5,336,809
Deposits, cash and bank balances	16	**3,468,627**	1,375,657	**3,468,598**	1,373,611
		21,776,389	10,749,299	**21,779,534**	10,786,024
Less: Current liabilities					
Payables	17	**66,211,985**	41,566,442	**66,210,485**	41,547,838
Current tax liabilities		**14,209**	14,209	**14,209**	14,209
		66,226,194	41,580,651	**66,224,694**	41,562,047
Net current liabilities		**(44,449,805)**	(30,831,352)	**(44,445,160)**	(30,776,023)
Net liabilities		**(29,930,728)**	(25,972,168)	**(29,926,080)**	(25,911,730)
Equity attributable to owners of the Company					
Share capital	18	**3,442,279**	3,442,279	**3,442,279**	3,442,279
Accumulated losses		**(33,373,007)**	(29,414,705)	**(33,368,359)**	(29,354,009)
Shareholders' equity		**(29,930,728)**	(25,972,426)	**(29,926,080)**	(25,911,730)
Non-controlling interests		**–**	258	**–**	–
Total equity		**(29,930,728)**	(25,972,168)	**(29,926,080)**	(25,911,730)

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2019

Group	Attributable to owners of the Company			Non-controlling interest	Total equity
	Share capital (Note 18) RM	Accumulated losses RM	Total RM	RM	RM
At 30 September 2017	3,442,279	(26,511,651)	(23,069,372)	1,792	(23,067,580)
Total comprehensive loss	–	(2,903,054)	(2,903,054)	(1,534)	(2,904,588)
At 30 September 2018	3,442,279	(29,414,705)	(25,972,426)	258	(25,972,168)
At 30 September 2018	3,442,279	(29,414,705)	(25,972,426)	258	(25,972,168)
Total comprehensive loss	–	(3,958,302)	(3,958,302)	(258)	(3,958,560)
At 30 September 2019	**3,442,279**	**(33,373,007)**	**(29,930,728)**	**–**	**(29,930,728)**

Company	Share capital (Note 18) RM	Accumulated losses RM	Total RM
At 30 September 2017	3,442,279	(26,467,724)	(23,025,445)
Total comprehensive loss	–	(2,886,285)	(2,886,285)
At 30 September 2018	3,442,279	(29,354,009)	(25,911,730)
At 30 September 2018	3,442,279	(29,354,009)	(25,911,730)
Total comprehensive loss	–	(4,014,350)	(4,014,350)
At 30 September 2019	**3,442,279**	**(33,368,359)**	**(29,926,080)**

STATEMENTS OF
CASH FLOWS
for the year ended 30 September 2019

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Operating activities					
Loss before tax		**(3,958,560)**	(2,904,588)	**(4,014,350)**	(2,886,285)
Adjustments for:					
Depreciation for property, plant and equipment		**596,471**	819,356	**596,471**	819,356
Gain on disposal of property, plant and equipment		**(698)**	–	**(698)**	–
Property, plant and equipment written off		**1**	254	**1**	254
Impairment loss for property, plant and equipment		**590,981**	228,129	**590,981**	228,129
Impairment loss for trade receivables		**54,583**	–	**54,583**	–
Reversal of impairment loss on trade receivables		**(2,581)**	–	**(2,581)**	–
Interest income		**–**	(4,095)	**–**	(4,095)
Impairment for unquoted investment		**249,137**	115,547	**254,243**	115,547
Operating cash flows before changes in working capital		**(2,470,666)**	(1,745,397)	**(2,521,350)**	(1,727,094)
Changes in working capital:					
- inventories		**(5,922,440)**	818,915	**(5,922,440)**	818,915
- receivables, deposits and prepayments		**(3,063,682)**	(1,192,903)	**(3,028,085)**	(1,201,433)
- payables		**24,645,543**	3,269,665	**24,662,647**	3,261,898
Cash flows from operations		**13,188,755**	1,150,280	**13,190,772**	1,152,286
Tax paid		**–**	(550)	**–**	(550)
Net cash flows from operating activities		**13,188,755**	1,149,730	**13,190,772**	1,151,736
Investing activities					
Purchase of property, plant and equipment		**(11,096,485)**	(112,285)	**(11,096,485)**	(112,285)
Proceeds from disposal of property, plant and equipment		**700**	–	**700**	–
Net cash flows used in investing activities		**(11,095,785)**	(112,285)	**(11,095,785)**	(112,285)
Net increase in cash and cash equivalents		**2,092,970**	1,037,445	**2,094,987**	1,039,451
Cash and cash equivalents					
- at start of the financial year		**1,241,562**	204,117	**1,239,516**	200,065
- at end of the financial year	16	**3,334,532**	1,241,562	**3,334,503**	1,239,516

The accompanying notes form an integral part of these financial statements.

NOTES TO THE
FINANCIAL STATEMENTS
for the year ended 30 September 2019

1 GENERAL INFORMATION

The principal activities of the Company are flour milling and trading of its related products. The principal activities of the subsidiaries are described in Note 12 to the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Third Floor, No.77, 79 & 81, Jalan SS 21/60, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan.

The principal place of business of the Company is located at Kawasan Lembaga Pelabuhan Kuantan, KM 25, Jalan Kuantan/Kemaman, Tanjung Gelang, 26080 Kuantan, Pahang Darul Makmur.

The financial statements are presented in Ringgit Malaysia.

2 BASIS OF PREPARATION

(a) The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in the individual policy statements in Note 3 to the financial statements and comply with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

(b) The financial statements have been prepared on the assumption that the Group and the Company are going concerns. The Group and the Company incurred net losses during the financial year ended 30 September 2019 of RM3,958,560 and RM4,014,350 respectively and, as at the date, the Group and the Company had net current liabilities of RM44,449,805 and RM44,445,160 respectively and negative shareholders' funds of RM29,930,728 and RM29,926,080 respectively.

The Company had on 28 November 2019 completed its Regularisation Plan (Note 28) which Bursa Securities has granted approval on 11 January 2019. With the completion of the Regularisation Plan, the Directors consider that it is appropriate to prepare the Group's and the Company's financial statements on the going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as of the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

(b) Non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

(c) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Work in progress is not deprecated as this asset is not yet available for use. Depreciation of other property, plant and equipment is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings, factory and civil works	20 to 50 years
Plant and machinery	10 to 30 years
Equipment and fixtures	5 years
Motor vehicles	5 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

(d) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are to reduce the carrying amount of the assets in the unit or groups.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

(e) Subsidiaries

The Group controls an entity when the Group is exposed to, or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

(ii) Amortised cost and effective interest method

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "investment income" line item.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets (continued)

(iii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (“ECL”) on investments in debt instruments that are measured at amortised cost or at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(iv) Derecognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the
Financial Statements (continued)
for the year ended 30 September 2019

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

- raw material: purchase costs on weighted average basis
- finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

(i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of the time is recognised as a finance cost.

(j) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market's participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or, liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial liabilities

(i) Classification of financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Other financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(ii) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(l) Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue and other income

(i) Revenue

Revenue is measured based on consideration specified in a contract with a customer in exchange for transferring goods or services to a customer. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer.

The Group or the Company transfer control of a goods or services at a point of time.

(ii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(iii) Interest income

Interest income is recognised using the effective interest method.

(n) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contribution are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

The Group participates in the national pension scheme as defined by law of the country in which it has operations. The Group makes contribution to the Employees Provident Fund ("EPF") in Malaysia, a defined contribution pension scheme. Contributions to defined pension schemes are recognised as an expense in the period in which the related service is performed.

(iii) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(p) Share capital

Ordinary shares are equity instruments. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(q) Contingencies

A contingent liability or asset is a possible obligation or rights that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial positions of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Foreign currency

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (‘’the functional currency”). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company’s functional currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are measured in the functional currency of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period.

4 REVENUE

	Group and Company	
	2019	**2018**
	RM	**RM**
Sales of flour and related products	**57,892,608**	39,006,965
Government grant	**711,259**	–
	58,603,867	39,006,965

Revenue is recognised when the Group or the Company transfers control of goods to the customers, net of rebates. The performance obligation is satisfied at a point in time and the customers are required to pay within the agreed credit terms.

5 COST OF SALES

	Group and Company	
	2019	**2018**
	RM	**RM**
Cost of inventories sold (including depreciation of RM543,843 (2018: RM751,635)	**57,523,939**	38,719,849

6 LOSS BEFORE TAX

The following items have been charged/(credited) in arriving at loss before tax:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Auditors' remuneration				
- current year	**53,000**	54,000	**52,000**	48,000
- other services	**5,000**	3,000	**5,000**	3,000
Non-executive directors' remuneration (Note 8)	**87,000**	96,000	**87,000**	96,000
Depreciation of property, plant and equipment	**596,471**	819,356	**596,471**	819,356
Gain on disposal of property, plant and equipment	**(698)**	–	**(698)**	–
Property, plant and equipment written off	**1**	254	**1**	254
Employee benefits expense (Note 7)	**4,247,928**	3,241,659	**4,247,928**	3,241,659
Rental of land and building	**565,265**	522,264	**565,265**	522,264
Rental of software	**30,250**	8,250	**30,250**	8,250
Impairment loss on property, plant and equipment	**590,981**	228,129	**590,981**	228,129
Impairment loss on trade receivables	**54,583**	–	**54,583**	–
Impairment for unquoted investment	**249,137**	115,547	**254,243**	115,547
Reversal of impairment loss on trade receivables	**(2,581)**	–	**(2,581)**	–
Net foreign exchange unrealised gain	**–**	(44,004)	**–**	(44,004)
Interest - fixed deposits	**–**	(4,095)	**–**	(4,095)

7 EMPLOYEE BENEFITS EXPENSE

	Group and Company	
	2019 RM	2018 RM
Wages and salaries	**3,310,028**	2,602,001
Social security contributions	**58,044**	43,837
Pension costs - defined contribution plan	**404,784**	330,771
Other staff related expenses	**475,072**	265,050
	4,247,928	3,241,659

Notes to the
Financial Statements (continued)
for the year ended 30 September 2019

8 DIRECTORS' REMUNERATION

	Group and Company	
	2019	2018
	RM	RM
Non - executive Directors (Note 6)		
- Fees	**87,000**	96,000

The number of directors of the Company whose total remuneration during the year within the following bands is analysed below:

	Number of Directors	
	2019	2018
Non-executive directors:		
Up to RM50,000	**3**	3

9 TAXATION

(a) Tax charge for the year

There is no tax charge as the Group and the Company are in tax loss position.

(b) Numerical reconciliation of income tax expense

The explanation on the difference in the tax on the Group's and Company's loss and the theoretical amount that would arise using the statutory income tax rate of Malaysia is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Loss before tax	**(3,958,560)**	(2,904,588)	**(4,014,350)**	(2,886,285)
Tax calculated at the Malaysian tax rate of 24% (2018: 24%)	**(950,054)**	(697,100)	**(963,444)**	(692,708)
Tax effect of:				
- expenses not deductible for tax purposes	**488,754**	131,471	**502,144**	127,079
- income not taxable	**–**	(40,371)	**–**	(40,371)
- deferred tax assets not recognised in respect of current year tax losses and deductible temporary differences (capital allowance)	**461,300**	606,000	**461,300**	606,000
	–	–	**–**	–

9 TAXATION (continued)

(c) Deferred tax

Deferred tax assets have not been recognised in respect of the following items as they arose in companies with recent history of losses.

	Group		Company	
	2019 RM	**2018 RM**	**2019 RM**	**2018 RM**
Unused tax losses	**71,628,414**	70,228,447	**66,400,000**	65,000,000
Deductible temporary differences - unutilised capital allowance	**6,660,000**	6,125,000	**6,660,000**	6,125,000
Unutilised reinvestment allowances	**9,972,944**	9,972,944	**9,972,944**	9,972,944

Pursuant to Amended Finance Bill 2018, the unabsorbed tax losses can only be carried forward up to seven (7) consecutive Year of Assessments from 2019 to 2025.

10 LOSS PER SHARE

Basic and diluted

Basic and diluted loss per share amounts are calculated by dividing the loss for the year, net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2019	**2018**
Loss net of tax attributable to owners of the Company used in the computation of basic and diluted loss per share (RM)	**(3,958,302)**	(2,903,054)
Weighted average number of ordinary shares for basic loss per share computation	**68,229,084**	68,229,084
Basic and diluted loss per share (sen)	**(5.80)**	(4.25)

11 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Buildings, factory and civil works RM	Plant and machinery RM	Equipment and fixtures RM	Motor vehicles RM	Work in progress RM	Total RM
Cost						
At 30 September 2017	9,796,345	37,160,012	4,063,284	168,336	–	51,187,977
Addition	–	44,454	67,831	–	–	112,285
Written off	–	–	(11,050)	–	–	(11,050)
At 30 September 2018	9,796,345	37,204,466	4,120,065	168,336	–	51,289,212
Addition	–	10,831,424	94,681	–	170,380	11,096,485
Disposal	–	–	–	(44,243)	–	(44,243)
Written off	–	(7,277,161)	–	–	–	(7,277,161)
At 30 September 2019	**9,796,345**	**40,758,729**	**4,214,746**	**124,093**	**170,380**	**55,064,293**
Accumulated depreciation and Impairment losses						
At 30 September 2017	8,316,597	33,322,046	3,859,463	144,372	–	45,642,478
Charge for the year	224,314	510,959	77,890	6,193	–	819,356
Written off	–	–	(10,796)	–	–	(10,796)
Impairment losses recognised	–	228,129	–	–	–	228,129
At 30 September 2018	8,540,911	34,061,134	3,926,557	150,565	–	46,679,167
Charge for the year	248,706	273,378	68,192	6,195	–	596,471
Written off	–	(7,277,160)	–	–	–	(7,277,160)
Impairment losses recognised	–	590,981	–	–	–	590,981
Disposal	–	–	–	(44,241)	–	(44,241)
At 30 September 2019	**8,789,617**	**27,648,333**	**3,994,749**	**112,519**	**–**	**40,545,218**
Net carrying amount						
At 30 September 2018	1,255,434	3,143,332	193,508	17,771	–	4,610,045
At 30 September 2019	**1,006,728**	**13,110,396**	**219,997**	**11,574**	**170,380**	**14,519,075**

As at 30 September 2019, the Group has recognised accumulated impairment losses of RM1,674,557 (2018: RM1,083,576) in respect of plant and machinery relating to Mill B. The said impairment losses were determined based on the assumptions as disclosed in Note 25(b)(ii).

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The factory is a flour mill constructed on a land leased by Novation Agreement between Kuantan Port Authority, Kuantan Port Consortium Sdn Bhd and the Company. The total rental commitment payable under the lease as at the year-end is as follows:

	Group and Company	
	2019	2018
	RM	RM
Not later than 1 year	**393,827**	381,462
Later than 1 year and not later than 5 years	**1,683,646**	1,629,913
Later than 5 years	**1,538,191**	1,954,608
	3,615,664	3,965,983

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2019	2018
	RM	RM
Unquoted shares, at cost	**1,346,107**	1,346,108
Less: Accumulated impairment losses	**(1,346,104)**	(1,340,999)
	3	5,109

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Proportion (%) of ownership interest 2019 %	2018 %	Principal activities
KFM Marketing Sdn Bhd #	Malaysia	**100**	100	Dormant
KFM Ventures Sdn Bhd *	Malaysia	**100**	100	Dormant
KFM Biotechnology Sdn Bhd *	Malaysia	**100**	100	Dormant
KFM Industries Sdn Bhd *	Malaysia	**100**	100	Dormant
KFM Transport Sdn Bhd ^	Malaysia	**100**	100	Dormant
KFM Trading Sdn Bhd ^^	Malaysia	**51**	51	Dormant

\# Audited by McMillan Woods Thomas.
* The subsidiaries are in the process of striking off with Companies Commission of Malaysia.
^ Strike off by Companies Commission of Malaysia on 6 September 2019.
^^ Strike off by Companies Commission of Malaysia on 5 August 2019.

13 OTHER INVESTMENT

	Group and Company	
	2019	2018
	RM	RM
Unquoted shares, at cost	**1,735,501**	1,735,501
Impairment loss	**(1,735,499)**	(1,486,362)
	2	249,139

14 INVENTORIES

	Group and Company	
	2019	2018
	RM	RM
Cost		
Raw material	**8,997,328**	3,444,800
Finished goods	**354,291**	50,581
Consumables	**646,425**	412,457
	9,998,044	3,907,838
Net realisable value		
Finished goods	**–**	167,766
	9,998,044	4,075,604

15 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2019	2018	2019	2018
	RM	RM	RM	RM
Trade receivables - third parties	**6,695,522**	5,237,595	**6,552,324**	5,094,397
Less: Impairment loss	**(387,973)**	(335,971)	**(244,777)**	(192,775)
	6,307,549	4,901,624	**6,307,547**	4,901,622
Other receivables	**852,214**	555,293	**852,214**	556,381
Less: Impairment loss	**(500,000)**	(500,000)	**(500,000)**	(500,000)
	352,214	55,293	**352,214**	56,381
Amounts due from subsidiaries	**–**	–	**3,176**	37,685
Advance for purchase	**8,664**	68,232	**8,664**	68,232
Deposits	**1,425,634**	58,281	**1,425,634**	58,281
Prepayments	**215,657**	214,608	**215,657**	214,608
	8,309,718	5,298,038	**8,312,892**	5,336,809

Trade receivables are non-interest bearing and are generally on 7 to 90 days (2018: 7 to 90 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

15 RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

Ageing analysis of trade receivables

The ageing analysis of the Group's and the Company's trade receivables are as follows:

	Group		Company	
	2019 RM	**2018 RM**	**2019 RM**	**2018 RM**
Neither past due nor impaired	**6,163,617**	4,563,677	**6,163,617**	4,563,677
1 to 30 days past due not impaired	**46,144**	299,614	**46,144**	299,614
31 to 60 days past due not impaired	**76,884**	1,399	**76,884**	1,399
61 to 90 days past due not impaired	**9,708**	(3,222)	**9,708**	(3,222)
More than 90 days past due not impaired	**11,196**	40,156	**11,194**	40,154
	143,932	337,947	**143,930**	337,945
Impaired	**387,973**	335,971	**244,777**	192,775
	6,695,522	5,237,595	**6,552,324**	5,094,397

Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group and the Company have trade receivables amounting to RM11,196 (2018: RM40,156) and RM11,194 (2018: RM40,154) respectively that are past due at reporting date but not impaired.

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit. The credit period is generally between 7 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk. As at 30 September 2019, the Directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are still considered fully recoverable.

15 RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

Trade receivables that are impaired

The Group and the Company's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	Individually impaired			
	2019 RM	2018 RM	2019 RM	2018 RM
Trade receivables				
- nominal amount	**387,973**	335,971	**244,777**	192,775
Less: Impairment losses	**(387,973)**	(335,971)	**(244,777)**	(192,775)
	–	–	–	–
Movement in allowance accounts:				
At start of the financial year	**335,971**	335,971	**192,775**	192,775
Charge for the financial year	**54,583**	–	**54,583**	–
Reversal for the financial year	**(2,581)**	–	**(2,581)**	–
At end of the financial year	**387,973**	335,971	**244,777**	192,775

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Other receivable that is impaired

At the reporting date, the Company has provided an allowance of RM500,000 (2018: RM500,000) for impairment of the amount due from a third party with a nominal amount of RM500,000 (2018: RM500,000).

There has been no movement in this allowance account for the financial year ended 30 September 2019 (2018: RM500,000).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Deposits with licensed banks	**134,095**	134,095	**134,095**	134,095
Cash and bank balances	**3,334,532**	1,241,562	**3,334,503**	1,239,516
Deposits, cash and bank balances	**3,468,627**	1,375,657	**3,468,598**	1,373,611
Deposits pledged as security	**(134,095)**	(134,095)	**(134,095)**	(134,095)
	3,334,532	1,241,562	**3,334,503**	1,239,516

The effective weighted average interest rate of the deposits at the end of the year was as follows:

	Group and Company	
	2019	**2018**
	%	**%**
Deposits with licensed banks	**3.15**	3.05

17 PAYABLES

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM	**RM**	**RM**	**RM**
Trade payables	**54,912,033**	32,367,792	**54,912,033**	32,356,603
Other payables	**8,885,278**	6,778,810	**8,885,278**	6,778,810
Accruals	**977,397**	622,031	**975,897**	612,386
Advance for sales	**1,437,277**	1,797,809	**1,437,277**	1,797,809
Amounts due to subsidiaries	**–**	–	**–**	2,230
	66,211,985	41,566,442	**66,210,485**	41,547,838

Trade payables and other payable totalling of RM33,028,383 (2018: RM32,110,605) in the Group and Company will be settled based on regularisation plan.

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2018: 30 to 90 days) except for as stated above.

Notes to the Financial Statements (continued) for the year ended 30 September 2019

18 SHARE CAPITAL

	2019 Unit	2018 Unit
Issued and fully paid ordinary shares		
At start and end of the financial year	**68,229,084**	68,229,084

Ordinary shares of the Company have no par value. The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

19 SIGNIFICANT RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	Group and Company	
	2019 RM	2018 RM
Short term employee benefits	**713,545**	715,209
Post-employment benefits: Defined contribution plan	**75,492**	71,436
	789,037	786,645
Included in the total key management personnel are:		
Directors' remuneration (Note 8)	**87,000**	96,000

20 COMMITMENTS

Operating lease commitment - as lessee

Information regarding the operating lease in relation to lease of land for the factory is disclosed in Note 11.

21 FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

(i) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Group and Company			
	2019		2018	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Financial assets:				
Unquoted shares	**2**	*****	249,139	*

* Fair value information has not been disclosed for the Group's investment in equity instrument that is carried at cost because fair value cannot be measured reliably. This equity instrument represents ordinary shares that is not quoted on any market and does not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant.

(ii) Determination of fair value

<u>Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value</u>

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables	15
Trade and other payables	17

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, due to their short-term in nature.

21 FINANCIAL INSTRUMENTS (continued)

(b) Categories of financial instruments

2019	Note	Carrying amount RM	Amortised cost RM
Group			
Financial assets			
Trade and other receivables	15	**6,659,763**	**6,659,763**
Cash and cash equivalents	16	**3,468,627**	**3,468,627**
		10,128,390	**10,128,390**
Financial liabilities			
Trade and other payables	17	**63,797,311**	**63,797,311**
Accruals	17	**977,397**	**977,397**
		64,774,708	**64,774,708**
Company			
Financial assets			
Trade and other receivables	15	**6,659,761**	**6,659,761**
Amounts due from subsidiaries	15	**3,176**	**3,176**
Cash and cash equivalents	16	**3,468,598**	**3,468,598**
		10,131,535	**10,131,535**
Financial liabilities			
Trade and other payables	17	**63,797,311**	**63,797,311**
Accruals	17	**975,897**	**975,897**
		64,773,208	**64,773,208**

21 FINANCIAL INSTRUMENTS (continued)

(b) Categories of financial instruments (continued)

2018	Note	Carrying amount RM	Loan and receivables RM	Amortised cost RM
Group				
Financial assets				
Trade and other receivables	15	4,956,917	4,956,917	–
Cash and cash equivalents	16	1,375,657	1,375,657	–
		6,332,574	6,332,574	–
Financial liabilities				
Trade and other payables	17	39,146,602	–	39,146,602
Accruals	17	622,031	–	622,031
		39,768,633	–	39,768,633
Company				
Financial assets				
Trade and other receivables	15	4,958,003	4,958,003	–
Amounts due from subsidiaries	15	37,685	37,685	–
Cash and cash equivalents	16	1,373,611	1,373,611	–
		6,369,299	6,369,299	–
Financial liabilities				
Trade and other payables	17	39,135,413	–	39,135,413
Accruals	17	612,386	–	612,386
Amounts due to subsidiaries	17	2,230	–	2,230
		39,750,029	–	39,750,029

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and Company are exposed to financial risks arising from their operations and use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Finance Manager and Management. The audit committee provides independent oversight to the effectiveness of the risks management process.

It is, and has been throughout the current and previous financial period, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

<u>Exposure to credit risk</u>

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

<u>Credit risk concentration profile</u>

The Group determines concentration of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date is as follows:

	Group			
	2019		2018	
	RM	% of total	RM	% of total
By country:				
Malaysia	**6,307,549**	**100.0**	4,901,624	100.0
By customers:				
2 customers	**1,767,475**	**28.0**	933,666	19.0

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 15. Deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 15.

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposures to liquidity risk arise primarily from mismatches of the maturities of financial assets and liabilities. The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met.

The Group's overall liquidity risk management is to maintain sufficient levels of cash to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises funding from shareholders, capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

Group - 2019 **Financial liabilities**	**On demand or within one year** **RM**	**1 to 5 years** **RM**	**Total** **RM**
Trade and other payables	**63,797,311**	**–**	**63,797,311**
Accruals	**977,397**	**–**	**977,397**
Total undiscounted financial liabilities	**64,774,708**	**–**	**64,774,708**

Company - 2019	**RM**	**RM**	**RM**
Trade and other payables	**63,797,311**	**–**	**63,797,311**
Accruals	**975,897**	**–**	**975,897**
Total undiscounted financial liabilities	**64,773,208**	**–**	**64,773,208**

Notes to the Financial Statements (continued) for the year ended 30 September 2019

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 100 basis points lower/higher, with all other variables held constant, the Group's loss net of tax would remain unchanged because the Group has no borrowings.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has no transactional currency exposure arising from sales or purchase that are denominated in a currency other than the functional currency of the Group ie RM.

23 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at a reasonable level. Included in the Group net debt are loans and borrowings, trade and other payables, less cash and bank balances. Capital includes equity attributable to owners of the parent.

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Trade payables, other payables and accruals	**64,774,708**	39,768,633	**64,773,208**	39,750,029
Less: Deposits, cash and bank balances	**(3,468,627)**	(1,375,657)	**(3,468,598)**	(1,373,611)
Net debt	**61,306,081**	38,392,976	**61,304,610**	38,376,418
Equity attributable to owners of the Company	**(29,930,728)**	(25,972,426)	**(29,926,080)**	(25,911,730)
Capital and net debt	**31,375,353**	12,420,550	**31,378,530**	12,464,688
Gearing ratio	**195%**	309%	**195%**	308%

24 SEGMENTAL INFORMATION

Geographical information

Revenue information based on the geographical location of customers is as follows:

	Revenue	
	2019	**2018**
	RM	**RM**
Malaysia	**58,603,867**	39,006,965

No segmental analysis by business segment had been prepared as the operations of the Group are principally flour milling and trading of its related products.

Information about a major customer

Revenue from one major customer amounted to RM18,516,914 (2018: RM19,299,664).

25 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Judgements made in applying accounting policies

There were no significant judgements made in applying the accounting policies of the Group which may have significant effects on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful live. Management estimates the useful lives of these plant and machinery to be 10 to 30 years. These are common life expectancies applied for the assets owned by the Group. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

25 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Key sources of estimation uncertainty (continued)

(ii) Impairment on property, plant and equipment

The Group assesses whether there are indicators of impairment for all non-financial assets at end of the reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

During the current financial year, the Group has further recognised impairment losses in property, plant and equipment relating to Mill B ("these assets") due to continuous gross loss generated by its wheat flour business. The Directors have made an impairment assessment and determined the recoverable amount by measuring these assets at their value-in-use. The value-in-use of these assets is the future economic benefits to be expected from their continued use by making an estimate of the expecting future cash flow from these assets and also to choose a suitable discount rate in order to calculate the present value of that cash flow.

26 ADOPTION OF NEW AND REVISED MALAYSIAN FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

During the financial year, the Group has adopted the following new and revised Malaysian Financial Reporting Standards and Interpretations (collectively referred to as 'MFRSs'), issued by the Malaysian Accounting Standards Board ('MASB') and effective for the financial periods beginning on or after 1 January 2018:

MFRSs that do not have significant impacts on these financial statements

The following new and revised MFRSs issued by the MASB, effective for financial periods beginning on or after 1 January 2018, have been adopted, but the adoptions do not have a significant impact on the financial statements except for MFRS 9, Financial Instruments as stated below.

<u>Effective for financial period beginning on or after 1 January 2018</u>

MFRS 9	Financial Instruments (IFRS 9 as issued by IASB in July 2014)
MFRS 15	Revenue from Contracts with Customers
MFRS 15	Clarification to MFRS 15
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 140	Transfers of Investment Property
IC Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRSs 2014-2016 Cycle:	
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
Amendments to MFRS 128	Investments in Associates and Joint Ventures

<u>MFRS 9 – Financial Instruments</u>

The Group and the Company have not restated comparative information for prior period with respect to classification and measurement requirements. Accordingly, the information present for 2018 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139 – Financial Instruments: Recognition and Measurement.

On the date of initial application of MFRS 9, financial assets which were previously classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

26 ADOPTION OF NEW AND REVISED MALAYSIAN FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)

MFRSs that have been issued but are not yet effective

<u>Effective for financial period beginning on or after 1 January 2019</u>	
MFRS 16	Leases
IC Int 23	Uncertainty over Income Tax Treatments
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 119	Employee Benefits (Plan Amendment, Curtailment or Settlement)
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
Annual Improvements to MFRSs 2015-2017 Cycle:	
Amendments to MFRS 3 and MFRS 11	Previously Held Interest in a Joint Operation
Amendments to MFRS 112	Income Tax Consequences of Payment on Financial Instruments Classified as Equity
Amendments to MFRS 123	Borrowing Costs Eligible for Capitalisation
<u>Effective for financial period beginning on or after 1 January 2020</u>	
Amendments to References to the Conceptual Framework in MFRS Framework:	
Amendments to MFRS 2	Share-Based Payment
Amendments to MFRS 3	Business Combinations
Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources
Amendments to MFRS 9, 139 and MFRS 7	Interest Rate Benchmark Reform
Amendments to MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 101 and MFRS 108	Definition of Material
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to MFRS 134	Interim Financial Reporting
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendments to MFRS 138	Intangible Assets
Amendments to IC Int 12	Service Concession Arrangements
Amendments to IC Int 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IC Int 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IC Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IC Int 132	Intangible Assets – Web Site Costs
Amendments to MFRS 3	Definition of Business
Amendments to MFRS 101 and 108	Definition of Material
Amendments to MFRS 9, 139 and 7	Interest Rate Benchmark Reform
<u>Effective for financial period beginning on or after 1 January 2021</u>	
MFRS 17	Insurance Contracts

The Group and the Company do not plan to apply MFRS 17 – Insurance Contracts as it is not applicable to the Group and the Company.

26 ADOPTION OF NEW AND REVISED MALAYSIAN FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)

The Group and the Company are currently assessing the financial impact that may arise from the initial application of the accounting standards, interpretations or amendments effective for annual periods beginning on or after 1 January 2019 and 1 January 2020 except as mentioned below:

MFRS 16 - Leases

MFRS 16 introduces a single, on balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remain similar to the current standard which continues to be classified as finance or operating lease.

The Group and the Company had adopted the modified retrospective approach and elected to measure the right-of-use asset at an amount equal to the lease liability at the date of initial application.

At 1 October 2019, the Group and the Company recognised lease liability of RM3,060,192 with a corresponding right-of-use assets of RM3,060,192.

The estimated impact on initial recognition is based on assessment to date and the actual impacts of adopting the standard may change as the Group and the Company are finalising the assessment of the impact on its financial statements.

27 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are as follows:

(a) On 04 April 2019, the Company announced the striking off of the following dormant companies:
   (i) KFM Ventures Sdn Bhd;
   (ii) KFM Industries Sdn. Bhd; and
   (iii) KFM Biotechnology Sdn Bhd

(b) On 23 April 2019, the Company announced the striking off of the following dormant companies:
   (i) KFM Transport Sdn Bhd; and
   (ii) KFM Trading Sdn Bhd

On 5 August 2019, KFM Trading Sdn Bhd and 6 September 2019, KFM Transport Sdn Bhd were struck off by Companies Commission of Malaysia.

(c) On 27 May 2019, the Shareholders of the Company in an Extraordinary General Meeting had approved a regularisation plan which earlier approved by Bursa Securities on 11 January 2019.

   The regularisation plan involved the followings:

   - 27,290,000 placement shares to be issued pursuant to the private placement;
   - 116,580,700 settlement shares to be issued pursuant to the debt settlement;
   - 477,595,420 rights shares to be issued pursuant to the rights issue;
   - 297,088,060 warrants to be issued pursuant to the rights issue and debt settlement;
   - 300,000,000 redeemable convertible preference shares (“RCPS”) to be issued pursuant to debt conversion;
   - Up to 297,088,060 new Company shares to be issued pursuant to the exercise of warrants; and
   - Up to 300,000,000 new shares to be issued pursuant to the conversion of the RCPS; and

(d) On 31 July 2019, the Company had successfully installed and commissioned a New Milling Line.

28 SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

On 28 November 2019, the Company had successfully completed its regularisation plan with the listing and quotation of the followings on the Main Market of Bursa Securities:

- 27,290,000 placement shares issued to Wong Sak Kuan on 1 October 2019;
- 116,580,700 settlement shares issued pursuant to the debt settlement;
- 477,595,420 rights shares issued pursuant to the rights issue; and
- 297,088,060 warrants issued pursuant to the rights issue and debt settlement;

On 26 November 2019, 300,000,000 redeemable convertible preference shares (“RCPS”) were allotted to Lotus Essential Sdn Bhd pursuant to the debt conversion.

The gross proceeds raised from the private placement and rights issue are as below:

	RM’000
Private placement	2,729
Rights issue	47,759
	50,488
Less: set off*	(16,374)
Total	34,114

	RM’000
Proposed utilisation of proceeds:	
- Working capital for:	
Wheat flour business	21,414
Tapioca flour business	10,000
- Expenses in relation to the regularisation plan	2,700
	34,114

* To settle RM16,374,000 out of the total outstanding advances and supplier’s credit extended by Lotus Essential Sdn Bhd to the Company against the subscription money payable by the private investor, Wong Sak Kuan towards the private placement and rights issue.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 24 December 2019.

INDEPENDENT AUDITORS' REPORT

to the members of Lotus KFM Berhad

(formerly known as Kuantan Flour Mills Berhad)
Registration Number: 198401007083 (119598-P)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lotus KFM Berhad (formerly known as Kuantan Flour Mills Berhad), which comprise the statements of profit or loss and other comprehensive income, the statements of financial position as at 30 September 2019 of the Group and of the Company, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 43 to 77.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 September 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. The key audit matters for the audit of the financial statements of the Group and of the Company as a whole are described below. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our opinion on the accompanying financial statements.

<u>Impairment of property, plant and equipment (Refer to Note 3(d) and Note 11 to the financial statements)</u>

As at 30 September 2019, included in the property, plant and equipment of the Group are building, factory plant and machinery. The continued operating losses registered by the Group and the Company are indications that the assets may be impaired. Management has performed an impairment assessment to estimate the value in use of these assets based on discounted future cash flows.

This area was important to our audit due to the significance of the carrying value of property, plant and equipment as well as the significant judgement involved in formulating assumptions to the cash flow projection for value in use computations.

Key Audit Matters (continued)

Our audit procedures included, amongst others:

(a) Reviewing the underlying assumptions used to prepare the projections, such as the discount rate and quantities sold. We corroborated the key assumptions with management's plans and existing contracts, where applicable;

(b) Reviewing the methodology of impairment assessment and assessed the discount factor used.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditors' Report to the members of Lotus KFM Berhad (continued)
(formerly known as Kuantan Flour Mills Berhad)
Registration Number: 198401007083 (119598-P)
(Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

McMillan Woods Thomas
(AF 001879)
Chartered Accountants

Jay Julian A/L Jaya Thalagah
[2692/12/19(J)]
Partner of the firm

Kuantan
24 December 2019

ANALYSIS OF SHAREHOLDINGS
as at 31 December 2019

Total number of Issued Shares	:	689,695,204 Ordinary Shares
Class of Equity Securities	:	Ordinary Shares ("shares")
Voting Right	:	One vote for every share held

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Size of Shareholdings	**No. of Holders**	**%**	**No of Shares**	**%**
Less than 100	86	2.88	1908	0.00
100 – 1,000	878	29.38	821,635	0.12
1,001 – 10,000	1,293	43.27	5,372,725	0.78
10,001 – 100,000	518	17.34	19,716,516	2.86
100,001 and above	209	7.00	371,892,420	53.92
Directors' Holdings	4	0.13	291,890,000	43.32
Total	2,988	100.00	689,695,204	100.00

SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS AS AT 31 DECEMBER 2019
(As per the Register of Substantial Shareholders)

	No. of Ordinary Shares			
Name of Substantial Shareholders	**Direct Interest**	**%**	**Indirect Interest**	**%**
Wong Sak Kuan	200,740,000	29.11	–	–
Yau Ming Teck	58,500,000	8.48	–	–
CWL Ventures Sdn. Bhd.	57,636,000	8.36	–	–
Datuk Lim Chiun Cheong	44,610,520	6.47	–	–
Chia Weng Lock	–	–	57,636,000[(a)]	8.36

Note:-

(a) Deemed interested by virtue of his interest in CWL Ventures Sdn Bhd pursuant to Section 8 of the Companies Act 2016.

DIRECTOR'S INTEREST AS AT 31 DECEMBER 2019
(As per the Register of Directors' Shareholdings)

	No. of Ordinary Shares			
Name of Director	**Direct Interest**	**%**	**Indirect Interest**	**%**
Wong Sak Kuan	200,740,000	29.11	–	–
Mohd Rasli Bin Muda	370,000	0.05	–	–
Lee Wai Fun	32,280,000	4.68	–	–
Yau Ming Teck	58,500,000	8.48	–	–
Low Koon Min	–	–	–	–

30 LARGEST SECURITIES ACCOUNT HOLDERS AS AT 31 DECEMBER 2019
(without aggregating securities from different securities accounts belonging to the same person)

No.	Name	No. of Shares Held	%*
1.	WONG SAK KUAN	200,740,000	29.11
2.	MERCSEC NOMINEES (TEMPATAN) SDN BHD - YAU MING TECK	58,500,000	8.48
3.	CWL VENTURES SDN BHD	57,636,000	8.36
4.	LIM CHIUN CHEONG	44,610,520	6.47
5.	LEE WAI FUN	32,280,000	4.68
6.	MV TECHNOLOGY SDN BHD	18,850,000	2.73
7.	WONG PENG KHOON	16,964,320	2.46
8.	WONG ONN ONN	12,323,900	1.79
9.	WONG MING MING	10,763,900	1.56
10.	CHONG FONG TAI	9,620,000	1.39
11.	CHAN PECK YIN	8,805,580	1.28
12.	TEO SOON KEE	8,000,000	1.16
13.	WONG HUEY PING	7,910,000	1.15
14.	AUGUSTINE KOK HWAI NAM	7,500,000	1.09
15.	LEE CHENG CHENG	7,500,000	1.09
16.	YAU CHI HANG	6,520,430	0.95
17.	LING YOKE HOOI	5,132,600	0.74
18.	CHUI MEE CHUEN	5,000,000	0.72
19.	EBS TECH.SDN. BHD.	5,000,000	0.72
20.	ONG LAY CHEONG	5,000,000	0.72
21.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD - LIM WILLIE	5,000,000	0.72
22.	WONG KOON WAI	4,644,170	0.67
23.	NEO KIM HOCK	4,471,700	0.65
24.	CHIN LIH LIH	3,670,100	0.53
25.	RHB NOMINEES (ASING) SDN BHD - EXEMPT AN (BP) FOR RHB SECURITIES HONG KONG LIMITED A/C CLIENTS (RETAIL)	3,650,000	0.53
26.	TEOH HOOI LEE	3,002,000	0.44
27.	ENG CHOO YIAN	3,000,000	0.43
28.	LEE WAI FONG	2,980,000	0.43
29.	KOH KIM HEOK	2,940,000	0.43
30.	SIM SOH POW	2,940,000	0.43

ANALYSIS OF
WARRANT HOLDINGS
as at 31 December 2019

Type of Securities	:	Warrants B ("Warrants")
No. of Warrants Issued	:	297,088,060
Exercise Price	:	RM0.10
Exercise Period	:	26 November 2019 to 25 November 2024

DISTRIBUTION OF WARRANTS HOLDINGS

Size of Holdings	No. of Warrant Holders	No. of Warrants	%
Less than 100	3	110	0.00
100 - 1,000	5	1,939	0.00
1,001 - 10,000	116	599,750	0.20
10,001 - 100,000	135	6,087,950	2.05
100,001 and above	98	160,783,311	54.12
Directors' Holdings	3	129,615,000	43.63
Total	360	297,088,060	100.00

DIRECTORS' WARRANT HOLDINGS
(As per the Register of Directors' Warrant Holdings)

	Direct Interest		Indirect Interest	
Name of Directors	No. of Warrants	%	No. of Warrants	%
Wong Sak Kuan	86,725,000	29.19	–	–
Mohd Rasli Bin Muda	–	–	–	–
Lee Wai Fun	16,140,000	5.43	–	–
Yau Ming Teck	26,750,000	9.00	–	–
Low Koon Min	–	–	–	–

THIRTY LARGEST WARRANT HOLDERS AS AT 31 DECEMBER 2019
(without aggregating the securities from different securities accounts belonging to the same registered holder)

No.	Name	No. of Warrants Held	%
1.	WONG SAK KUAN	86,725,000	29.19
2.	MERCSEC NOMINEES (TEMPATAN) SDN BHD - YAU MING TECK	26,750,000	9.00
3.	CWL VENTURES SDN BHD	24,015,000	8.08
4.	LIM CHIUN CHEONG	22,305,260	7.51
5.	LEE WAI FUN	16,140,000	5.43
6.	MV TECHNOLOGY SDN BHD	9,000,000	3.03
7.	WONG PENG KHOON	8,482,160	2.86
8.	WONG ONN ONN	6,161,950	2.07
9.	WONG MING MING	5,381,950	1.81
10.	CHUI MEE CHUEN	5,000,000	1.68
11.	YAU CHI HANG	4,760,210	1.60
12.	CHONG FONG TAI	4,560,000	1.53
13.	CHAN PECK YIN	4,402,790	1.48
14.	WONG KOON WAI	3,822,090	1.29
15.	WONG HUEY PING	3,712,500	1.25
16.	AUGUSTINE KOK HWAI NAM	3,500,000	1.18
17.	LEE CHENG CHENG	3,500,000	1.18
18.	LING YOKE HOOI	3,435,000	1.16
19.	TEO SOON KEE	3,000,000	1.01
20.	ONG LAY CHEONG	2,500,000	0.84
21.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD - LIM WILLIE	2,500,000	0.84
22.	LEE BENG HEOK	2,000,000	0.67
23.	WONG MUN CHEN	1,931,700	0.65
24.	CHIN LIH LIH	1,585,050	0.53
25.	ENG CHOO YIAN	1,500,000	0.50
26.	TEOH YEN PING	1,500,000	0.50
27.	LEE CHENG LOCK	1,429,600	0.48
28.	LEE WAI FONG	1,415,000	0.48
29.	KOH KIM HEOK	1,225,000	0.41
30.	MAYBANK NOMINEES (TEMPATAN) SDN BHD - HOO YEEK FOO	1,218,000	0.41

LIST OF
PROPERTIES
held by the Group as at 30 September 2019

A summary of LKFM-owned properties is set out as below:

Location	Tenure	Date of Revaluation/ Date of Acquisition	Area	Description	Age of Building	Net Carrying Amount RM'000
Pajakan Negeri 550, Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	21 years and 3.5 months lease expiring on 30 December 2027	15 September 1985	25,425 sq. metres	Office and Factory	34 years and 27 years	192 570
Pajakan Negeri 550, Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	17 years and 7 months lease expiring on 30 December 2027	1 June 2010	4,253 sq. metres	Wheat silos	17 years	872

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-Fifth Annual General Meeting ("Meeting" or "AGM") of LOTUS KFM BERHAD (formerly known as Kuantan Flour Mills Berhad) ("KFM" or "the Company") will be held at Function Room 1, Rocana Hotel, 1st floor, B2-B10, Lorong Tun Ismail 8, Sri Dagangan II, 25000 Kuantan, Pahang on Tuesday, 17 March 2020 at 09:30 a.m. to transact the following businesses:-

A G E N D A

As Ordinary Business:

1. To receive the Audited Financial Statements for the financial year ended 30 September 2019 together with the Reports of the Directors and Auditors thereon.	**PLEASE REFER TO EXPLANATORY NOTE 1**
2. To approve the payment of Directors' fees and benefits of RM87,000 for the financial year ended 30 September 2019.	**ORDINARY RESOLUTION 1**
3. To approve the payment of Directors' fees and benefits of up to RM316,000 from 1 October 2019 until the next Annual General Meeting of the Company.	**ORDINARY RESOLUTION 2**
4. To re-elect the following Directors who retire by rotation in accordance with Clause 68 of the Company's Constitution:	
i. Encik Mohd Rasli Bin Muda	**ORDINARY RESOLUTION 3**
ii. Mr. Wong Sak Kuan	**ORDINARY RESOLUTION 4**
iii. Ms. Lee Wai Fun	**ORDINARY RESOLUTION 5**
iv. Mr. Yau Ming Teck	**ORDINARY RESOLUTION 6**
5. To re-appoint Messrs. Grant Thornton Malaysia PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.	**ORDINARY RESOLUTION 7**

As Special Business:
To consider and if thought fit, pass with or without any modifications, the following resolutions:

6. **GENERAL AUTHORITY FOR THE DIRECTORS TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016** — **ORDINARY RESOLUTION 8**

   "THAT pursuant to Sections 75 and 76 of the Companies Act 2016, and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to allot and issue shares in the Company from time to time at such price, upon such terms and conditions, for such purposes and to such person or persons whomsoever as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company for the time being AND THAT the Directors be and are also empowered to obtain approval from the Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the additional shares so issued AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

Notice of
Annual General Meeting (continued)

7. **PROPOSED SHAREHOLDERS' RATIFICATION OF RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND/OR TRADING NATURE** **ORDINARY RESOLUTION 9**

"THAT all the recurrent related party transactions of a revenue and/or trading nature entered or to be entered into by the Company and/or its subsidiaries ("the Group") from 1 October 2019 up to the date of the Thirty-Fifth Annual General Meeting as set out in Section 2.8 of the Circular to Shareholders dated 31 January 2020 which are necessary for the day-to-day operations of the Group and within the ordinary course of business of the Group, made on an arm's length basis and on normal commercial terms which are those generally available to the public and are not detrimental to the minority shareholders of the Company, be and are hereby accepted, confirmed and ratified.

AND THAT all the action taken and execution of all necessary documents by the Directors and/or any person(s) authorised by the Directors for and on behalf of the Company as they had considered expedient or deemed fit in the interest of the Company, be and are hereby accepted, confirmed and ratified."

8. **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND/OR TRADING NATURE ("PROPOSED SHAREHOLDERS' MANDATE")** **ORDINARY RESOLUTION 10**

"THAT, authority be and is hereby given in line with Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, for the Company and/or its subsidiaries ("the Group") to enter into any of the recurrent related party transactions with the related parties as set out in Section 2.8 of the Circular to Shareholders dated 31 January 2020 which are necessary for the day-to-day operations of the Group within the ordinary course of business of the Group, made on an arm's length basis and on normal commercial terms which are those generally available to the public and are not detrimental to the minority shareholders of the Company.

AND THAT such authority shall commence immediately upon the passing of this resolution until:

(i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which the ordinary resolution for the Proposed Shareholders' Mandate was passed, at which time it shall lapse, unless the authority is renewed by a resolution passed at the next AGM; or

(ii) the expiration of the period within which the next AGM after that date it is required by law to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(iii) revoked or varied by an ordinary resolution passed by the shareholders of the Company at a general meeting, whichever is earlier.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to do all acts, deeds and things as they may be deemed fit, necessary, expedient and/or appropriate in order to implement the Proposed Shareholders' Mandate with full power to assent to all or any conditions, variations, modifications and/or amendments in any manner as may be required by any relevant authorities or otherwise and to deal with all matters relating thereto and to take all such steps and to execute, sign and deliver for and on behalf of the Company all such documents, agreements, arrangements and/or undertakings, with any party or parties and to carry out any other matters as may be required to implement, finalise and complete, and give full effect to the Proposed Shareholders' Mandate in the best interest of the Company."

9. **PROPOSED AMENDMENTS TO THE CONSTITUTION OF THE COMPANY** **SPECIAL RESOLUTION**

"THAT approval be and is hereby given to alter or amend the whole of the existing Constitution of the Company by the replacement thereof with a new Constitution of the Company as set out in "Appendix A" with immediate effect AND THAT the Directors and/or the Secretary of the Company be authorised to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities, and to do all acts and things and to take all such steps as may be considered necessary to give full effect to the foregoing."

10. To transact any other business of which due notice shall have been given.

By order of the Board

TEA SOR HUA (MACS 01324)
Company Secretary

Petaling Jaya, Selangor Darul Ehsan
31 January 2020

Notes:

i. A member who is entitled to attend and vote at the Meeting shall be entitled to appoint more than one (1) proxy to attend and vote at the Meeting. Where a member appoints more than one (1) proxy, the member shall specify the proportion of his shareholdings to be represented by each proxy.

ii. A proxy may, but need not, be a member of the Company. A member may appoint any person to be his proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak and vote at the Meeting.

iii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the seal or under the hand of an officer or attorney duly authorised.

iv. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

v. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. The appointment of multiple proxies shall not be valid unless the proportion of its shareholdings represented by each proxy is specified.

vi. To be valid, the instrument appointing a proxy must be deposited at the Share Registrar of the Company situated at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting or adjourned meeting.

vii. For the purpose of determining a member who shall be entitled to attend the Meeting, the Company will be requesting Bursa Malaysia Depository Sdn. Bhd. in accordance with Article 43A of the Company's Constitution to issue a General Meeting Record of Depositors as at 9 March 2020. Only members whose name appears in the Record of Depositors as at 9 March 2020 shall be entitled to attend the Meeting and to speak and vote thereat.

viii. All the resolutions set out in this Notice will be put to vote by poll.

EXPLANATORY NOTES TO ORDINARY/SPECIAL BUSINESS

1. Item 1 of the Agenda

This Agenda is meant for discussion only as the provision of Section 340(1)(a) of the Companies Act 2016 does not require a formal approval of members for the Audited Financial Statements. Hence, Agenda No. 1 will not put forward for voting.

2. Item 3 of the Agenda

The estimated Directors' fees and benefits proposed for the period from 1 October 2019 until the next Annual General Meeting of the Company were calculated based on the current Board size and number of scheduled Board and Committee meetings to be held. This resolution is to facilitate payment of Directors' fees and benefit on a current financial year basis. In the event the proposed amount is insufficient due to more meetings or enlarged Board size, approval will be sought at the next AGM for the shortfall.

3. Item 6 of the Agenda

The Proposed Ordinary Resolution 8 proposed under item 6 of the Agenda is a renewal of the general mandate for issuance of shares by the Company pursuant to Sections 75 and 76 of the Companies Act 2016. This Ordinary Resolution, if passed, will empower the Directors to issue shares in the Company up to an amount not exceeding in total ten per centum (10%) of the total number of issued shares of the Company for such purposes as the Directors consider would be in the interest of the Company. This would avoid any delay and cost involved in convening at a general meeting to approve such an issue of shares. This authority will, unless revoked or varied by the Company at a general meeting, expire at the conclusion of the next annual general meeting or the expiration of the period within which the next AGM is required by law to be held, whichever is the earlier.

This general mandate will provide flexibility to the Company for issuance and allotment of shares for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s), working capital and/or acquisition(s).

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the Thirty-Fourth AGM held on 27 February 2019 which will lapse at the conclusion of the Thirty-Fifth AGM.

4. **Item 7 of the Agenda**

   The Proposed Ordinary Resolution 9, if passed, will ratify all the recurrent related party transactions entered or to be entered into by the Group from 1 October 2019 up to the date of the Thirty-Fifth AGM.

   Please refer to the Circular to Shareholders dated 31 January 2020 for further information.

5. **Item 8 of the Agenda**

   The Ordinary Resolution 10, if passed, will allow the Group to enter into recurrent related party transactions of a revenue and/or trading nature pursuant to the Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

   Please refer to the Circular to Shareholders dated 31 January 2020 for further information.

6. **Item 9 of the Agenda**

   The Special Resolution proposed under item 9 of the Agenda in relation to the proposed amendments to the existing Constitution of the Company are made mainly for the following purposes:-

   (i) To ensure compliance with the Main Market Listing Requirements of Bursa Securities; and

   (ii) To provide clarity and consistency with the amendments that arise from the Companies Act 2016 and other relevant regulatory provisions.

   This Special Resolution if passed, will allow the Company to alter or amend the whole of the existing Constitution by the replacement with the proposed new Constitution as per “Appendix A” in accordance with Section 36(1) of the Companies Act 2016. The “Appendix A” on the proposed new Constitution of the Company, which is circulated together with the Notice of AGM dated 31 January 2020, shall take effect once the special resolution has been passed by a majority of not less than seventy-five per centum (75%) of such members who are entitled to vote and do vote in person or by proxy at the Thirty-Fifth AGM.

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LOTUS KFM BERHAD

(formerly known as Kuantan Flour Mills Berhad)
198401007083 (119598-P)
(Incorporated in Malaysia)

PROXY FORM

I/We* ....

NRIC/Company No.* ....
(full name in capital letters)

of ....
(full address)

being (a) member(s) of LOTUS KFM BERHAD (formerly known as Kuantan Flour Mills Berhad) hereby appoint

.... NRIC No. ....
(full name in capital letters)

of ....
(full address)

and/or* .... NRIC No. ....
(full name in capital letter)

of ....
(full address)

or failing him/her*, the Chairman of the Meeting as my/our* proxy to vote for me/us* on my/our* behalf at the Thirty-Fifth Annual General Meeting of the Company to be held at Function Room 1, Rocana Hotel, 1st floor, B2-B10, Lorong Tun Ismail 8, Sri Dagangan II, 25000 Kuantan, Pahang on Tuesday, 17 March 2020 at 09:30 a.m. and at any adjournment thereof.

Please indicate with an "X" in the appropriate spaces how you wish your votes to be cast. If no specific direction as to vote is given, the Proxy will vote or abstain from voting at his/her* discretion.

No.	Ordinary Resolution	For	Against
1	To approve the payment of Directors' fees and benefits of RM87,000 for the financial year ended 30 September 2019.		
2	To approve the payment of Directors' fees and benefits of up to RM316,000 from 1 October 2019 until the next Annual General Meeting of the Company.		
3	To re-elect Encik Mohd Rasli Bin Muda as Director.		
4	To re-elect Mr. Wong Sak Kuan as Director.		
5	To re-elect Ms. Lee Wai Fun as Director.		
6	To re-elect Mr. Yau Ming Teck as Director.		
7	To re-appoint Messrs. Grant Thornton PLT Malaysia as Auditors of the Company.		
8	To approve the authority for Directors to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
9	To approve the Proposed Shareholders' Ratification of Recurrent Related Party Transactions of a Revenue and/or Trading Nature.		
10	To approve the Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue and/or Trading Nature.		

No.	Special Resolution	For	Against
1	To approve the Proposed Amendments to the Constitution of the Company.		

* *delete whichever not applicable*

CDS Account No.	
No. of Shares Held	

Dated this .... day of .... 2020.

For appointment of more than one (1) proxy, percentage of shareholdings to be represented by each proxy:		
	No. of Shares	**%**
Proxy [ ]		
Proxy [ ]		
TOTAL		100

....
Signature/ Common Seal of Member(s)

Fold this flap for sealing

NOTES:

i. *A member who is entitled to attend and vote at the Meeting shall be entitled to appoint more than one (1) proxy to attend and vote at the Meeting. Where a member appoints more than one (1) proxy, the member shall specify the proportion of his shareholdings to be represented by each proxy.*

ii. *A proxy may, but need not, be a member of the Company. A member may appoint any person to be his proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak and vote at the Meeting.*

iii. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under the seal or under the hand of an officer or attorney duly authorised.*

iv. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

v. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. The appointment of multiple proxies shall not be valid unless the proportion of its shareholdings represented by each proxy is specified.*

vi. *To be valid, the instrument appointing a proxy must be deposited at the Share Registrar of the Company situated at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, not less than forty-eight (48) hours before the time for holding the Meeting or adjourned meeting.*

vii. *For the purpose of determining a member who shall be entitled to attend the Meeting, the Company will be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 43A of the Company's Constitution to issue a General Meeting Record of Depositors as at 9 March 2020. Only members whose name appears in the Record of Depositors as at 9 March 2020 shall be entitled to attend the Meeting and to speak and vote thereat.*

viii. *All the resolutions set out in this Notice will be put to vote by poll.*

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AFFIX
STAMP

The Share Registrar
LOTUS KFM BERHAD
(formerly known as Kuantan Flour Mills Berhad)
198401007083 (119598-P)
Level 7, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
Damansara Heights,
50490 Kuala Lumpur, Malaysia

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LOTUS KFM

LOTUS KFM BERHAD
(formerly known as Kuantan Flour Mills Berhad)
Registration No. 198401007083 (119598-P)

www.kfmb.com.my