

LOTUS KFM BERHAD
Registration No. 198401007083(119598-P)



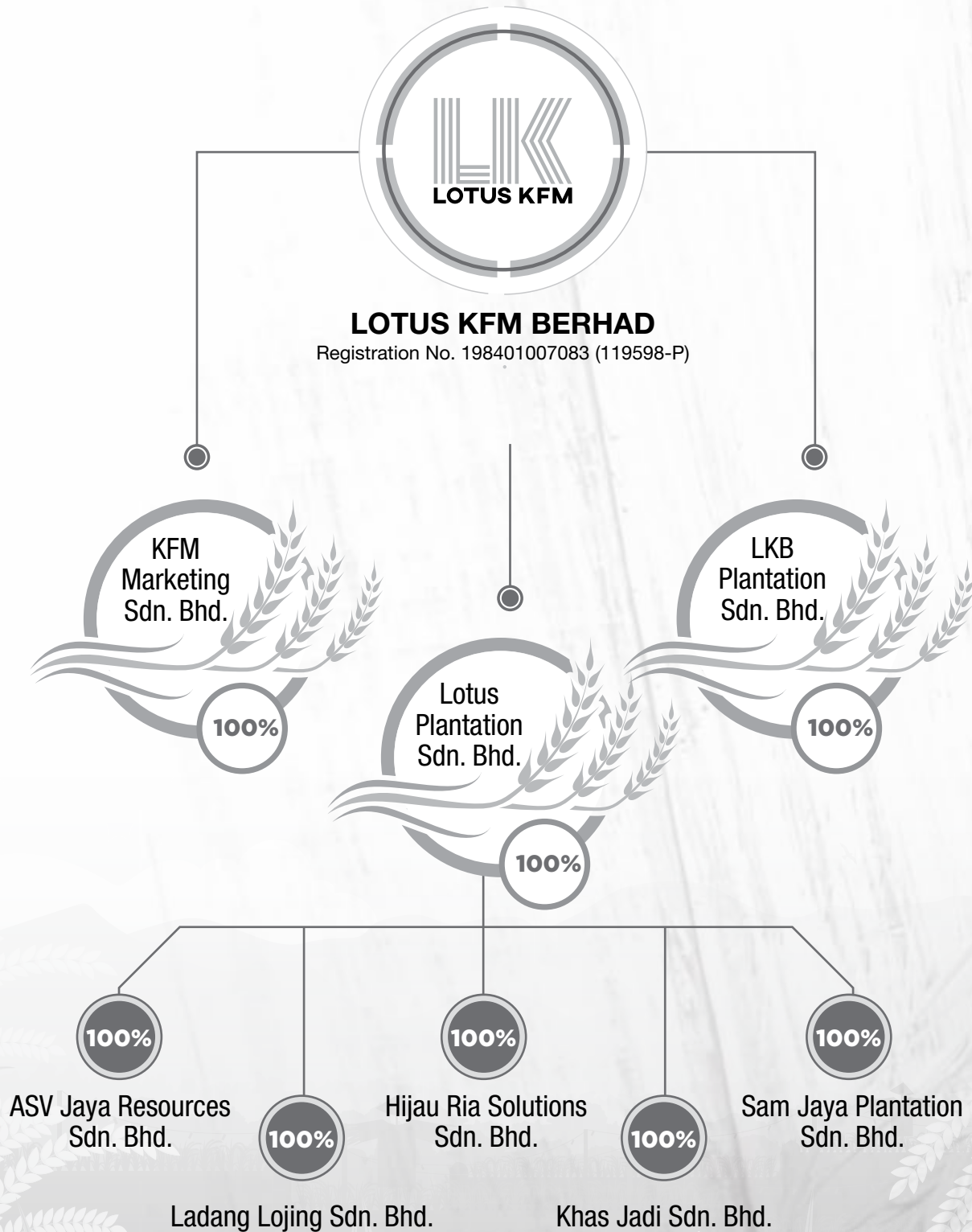
ANNUAL REPORT 2022

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CORPORATE STRUCTURE



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

YAP EE SEONG

Independent Non-Executive Director

LIM LIAN CHEE

Executive Director

DATUK WONG SAK KUAN

Non-Independent Non-Executive Director / Vice Chairman

YAU MING TECK

Non-Independent Non-Executive Director

CHIA WENG LOCK

Non-Independent Non-Executive Director

WONG YAU MIN

Non-Independent Non-Executive Director

**AUDIT
COMMITTEE**

Low Koon Min (*Chairperson*)

Mohd Rasli bin Muda

Datuk Wong Sak Kuan

**NOMINATION
COMMITTEE**

Low Koon Min (*Chairperson*)

Mohd Rasli bin Muda

Yau Ming Teck

**REMUNERATION
COMMITTEE**

Mohd Rasli bin Muda (*Chairman*)

Datuk Wong Sak Kuan

Low Koon Min

**COMPANY
SECRETARY**

Tea Sor Hua
(MACS 01324)
(SSM PC No.: 201908001272)

**REGISTERED
OFFICE**

Third Floor, No. 77, 79 & 81
Jalan SS 21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan
Tel : +603-7725 1777
Fax : +603-7722 3668

**CORPORATE
OFFICE**

Unit T2-L3-1 & 3,
Level 3, IOI City Tower Two
Lebuh IRC, IOI Resort City
62502 Putrajaya
Tel : +603-8959 4883
Fax : +603-8959 8057
Website : <http://www.kfmb.com.my/>

FACTORY

Kawasan Lembaga Pelabuhan Kuantan
KM25, Jalan Kuantan/Kemaman
Tanjung Gelang, 26080 Kuantan,
Pahang Darul Makmur
Tel : +609-583 3611
Fax : +609-583 3618

**PRINCIPAL
BANKERS**

AmBank Islamic Berhad
AmBank (Malaysia) Berhad
OCBC Bank (Malaysia) 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 : +603-2084 9000
Fax : +603-2094 9940 / +603-2095 0292

AUDITORS

Grant Thornton Malaysia PLT
(201906003682 & LLP0022494-LCA)
Chartered Accountants
(AF 0737)

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

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

Founded in 1984 and known as Kuantan Flour Mills (KFM) then, the Company grew rapidly in the next 25 years before experiencing headwinds that affected its operation in 2015, when the Company was classified as an affected listed issuer under paragraph 2.1 of Practice Note 17 ("PN17"). On 28 November 2019, it had successfully completed its regularisation plan which was approved by Bursa Malaysia Securities Berhad ("Bursa Securities") on 11 January 2019.

Following a successful regularisation plan on 28 November 2019 which was approved by Bursa Securities in early 2019, the Company then appointed several new Board members to strengthen its Board with diversified talent in skill, expertise and experience. The Company renewed its marketing strategy to continue re-captured its flour market share since the re-activation of its business operations.

On 7 July 2020, with the completion of the regularisation plan, LKFM has regularised its financial condition and no longer triggers any of the criteria under PN17 of the Main Market Listing Requirements of Bursa Securities.

Bursa Securities has decided to approve LKFM's application for an early upliftment from being classified as a PN17 company. LKFM has uplifted from being classified as a PN17 company effective from 9.00 a.m, Wednesday, 8 July 2020. During this financial year 2022 ("FYE 2022"), a proposed diversification allows the Group to enter into forest plantation industry in Malaysia and the Plantation Business is expected to provide a new source of recurring income stream for the Group to mitigate the risk of overdependence on its existing business.

As part of the diversification plan, the Group have acquired three subsidiaries in 100% of the total issued shares, being ASV Jaya Resources Sdn. Bhd., Sam Jaya Plantation Sdn. Bhd. and Hijau Ria Solution Sdn. Bhd. on 11 October 2021. Their business included to plant, grow cultivate, produce and raise forest plantations of all kinds or varieties of forest plants, tree and crops nature product, wholesale of lumber and timber. On 31 December 2022, the Group had again acquired another two subsidiaries, Khas Jadi Sdn. Bhd. and Ladang Lojing Sdn. Bhd. in 100% of total shares.

The Board believes that the future revenue contribution from the existing and new subsidiaries will positively contribute to the Group's earnings.

A full description of the Group's integrated business model, financial outcomes, information on the subsidiaries can be found in our Annual Report 2022.

CORPORATE DEVELOPMENTS

Details of the regularisation plan can be obtained from the Company's announcements with Bursa Securities.

Management Discussion and Analysis (cont'd)

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:-

	2022 RM'000	2021 RM'000	2020 RM'000	2019 RM'000	2018 RM'000	2017 RM'000
Revenue	66,079	51,762	55,098	57,893	39,007	7,521
Operating profit/(loss)	3,075	2,475	9,741	(3,962)	(2,905)	(12,259)
Profit/(Loss) before tax	3,188	2,831	10,060	(3,962)	(2,905)	(12,260)
Profit/(Loss) after tax and minority Interests	3,055	2,661	9,927	(3,962)	(2,903)	(12,260)
Shareholders' funds	76,118	73,062	55,765	(29,931)	(25,972)	(23,068)
Net tangible assets	76,118	73,062	55,765	(29,931)	(25,972)	(23,068)
Tangible assets	88,397	86,922	80,156	36,338	15,608	15,244
Basic earnings/(loss) per share (sen)	0.30	0.34	1.64	(5.81)	(4.25)	(17.97)
Net assets per share (sen)	7.47	7.17	7.76	(43.87)	(38.06)	(33.81)

The Group recorded consolidated revenue of RM66.079 million, represented increase of 27.66% over the prior financial year amount of RM51.762 million.

The Group now records a gross profit of RM4.171 million (FYE 2021: RM4.285 million). As compared with the prior year, the Group's gross profit has been decreased by 2.66% and gross profit margin of 6.31% (FYE 2021: 8.28%). The Group's inventories level for the current FYE 2022 had decrease significantly by 67.09% to RM1.480 million (FYE 2021: RM4.497 million). This because LKFM is trying to maintain a lower inventory level to minimize the holding cost and carrying cost. Furthermore, it can also reduce the risk of slow-moving stock.

The trade receivables had increased to RM7.725 million at the FYE 2022 compare to prior financial year (FYE 2021: RM5.940 million). It had increased 30.05% compare to prior financial year. The increase in trade receivables was due to higher sales generated towards the end of FYE2022 resulting in the corresponding increase in trade receivables.

Other receivables have decrease 30.67% to RM10.609 million (FYE 2021: RM15.302 million). This is mainly due to deposits paid in acquiring companies, which are the subsidiaries include the context of the annual report. The acquisition is part of the Group's plans to venture into the forest plantation industry to meet the increasing demand for wood-based upstream products in the local and international market.

The Group's cash and cash equivalents placed with financial institution decreased by 46.93%, to RM 20.945 million when compared to the prior financial year (FYE 2021: RM39.467 million).

The Group maintained gearing as at end of the current financial year, the Debt-to-Equity ratio is 0.11 (FYE 2021: 0.12).

For the payables side, it has decreased significantly to RM2.149 million with a decrease of 36.66% (FYE 2021: RM3.393 million). The reason of such a substantial decrease was because the debts that have been settled by the Group and the Company.

For the FYE 2022, the Group had recorded with surplus net operating cashflow of RM11.853 million (FYE 2021: deficit net operating cashflow RM4.825 million).

Management Discussion and Analysis (cont'd)

ANTICIPATED BUSINESS RISKS

The business risks faced by the Group included market competitions, volatility of imported raw material prices, movements of currency exchange rates, the 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 a new market strategy to capture a 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

The volatility of prices on imported raw materials such as wheat and tapioca remain the key challenge. Both 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, the supply and demand of wheat and tapioca, as well as stock levels.

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

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

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

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

c. Movements of currency exchange rates

As LKFM's main raw materials such as wheat and tapioca are fully imported from overseas markets and it is traded in United States Dollar ("USD"). However, Malaysia Ringgit (MYR) seem to be on a weakening trend against USD, despite surging raw materials cost. Fluctuations in USD/RM rates will greatly impacted on its raw material costs and hence affected the Group financial performance. However, during the current financial year, the Group has purchased the aforesaid raw materials locally from its business collaboration partner, Lotus Essential Sdn. Bhd. ("LOTUS"). Hence, the aforesaid currency risk is protected.

Management Discussion and Analysis (cont'd)

ANTICIPATED BUSINESS RISKS (CONT'D)

d. The 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 Group. We will continue to take a 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 macroeconomies both globally as well as within the nation will have a great negative impact on the financial performance of the Group. Similarly, any changes in political may bring about unfavorable future prospects of the business such as the war between Ukraine and Russia and the wheat export had banned by the Indian Government during second quarter of the current financial year. The Group may take a prudent approach to manage these risks internally in the event it arises, however, these risks are still beyond the control of the Group.

OUTLOOK OF INDUSTRY

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 the best value is set so that our customers can get the best possible deals with no compromise in quality and services.

NOTE OF APPRECIATION

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

Further, we would like to take this opportunity to welcome our new board members, Mr. Wong Yau Min and Mr. Lim Lian Chee. Both of them joined the board on 30 September 2022 and 3 October 2022 respectively. With their expertise and experience, we believed the Group will achieve a better and greater performance in future.