KUANTAN FLOUR MILLS BERHAD
(119598-P)

ANNUAL REPORT 2010

CONTENTS

Corporate Structure

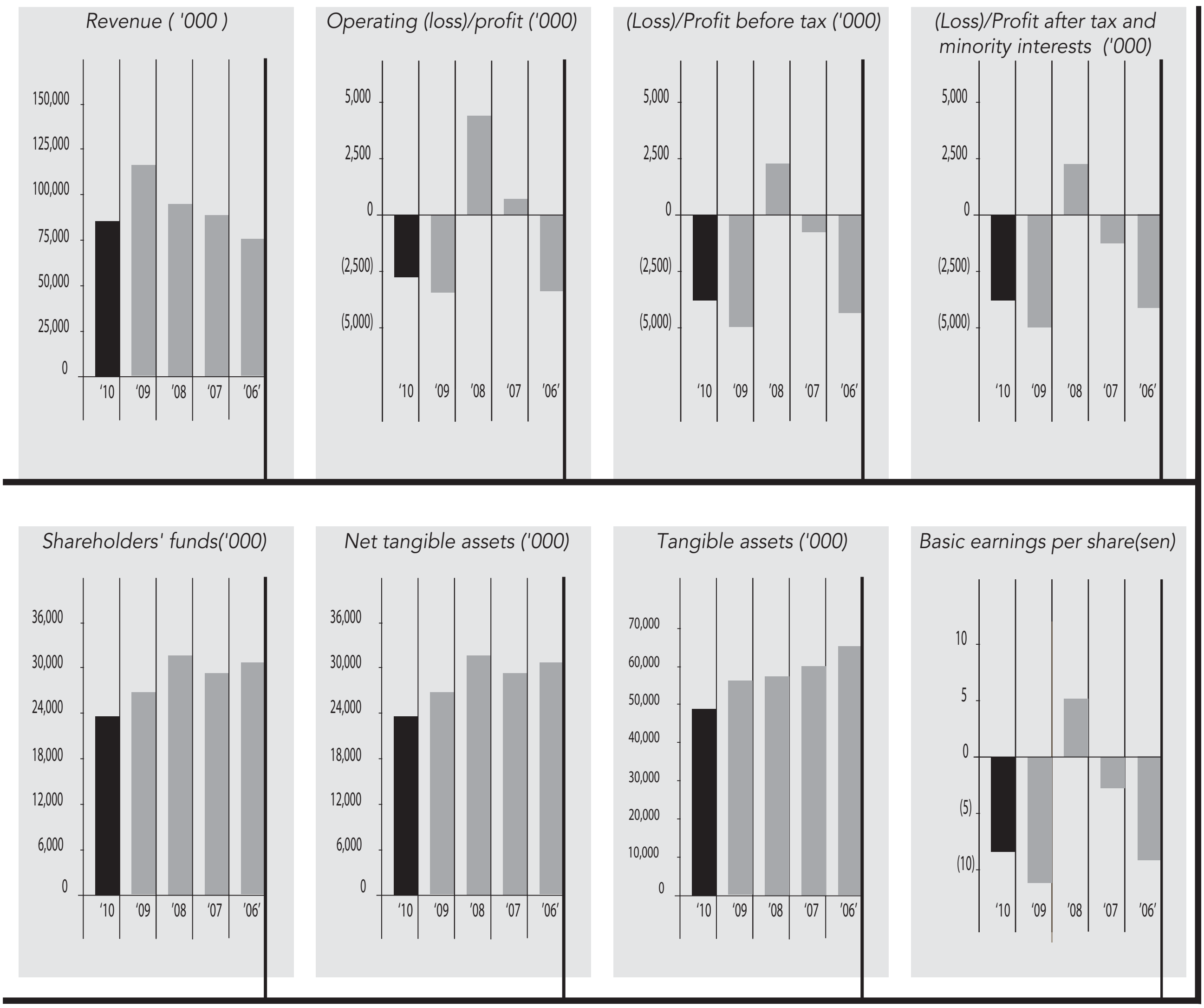
KUANTAN FLOUR MILLS BERHAD
(119598-P)

- 100% KFM TRANSPORT SDN BHD
- 100% KFM VENTURES SDN BHD
- 100% KFM TRADING SDN BHD
- 100% KFM BIOTECHNOLOGY SDN BHD
- 100% KFM INDUSTRIES SDN BHD
- 95% KFM MARKETING SDN BHD
- 60% KFM-BUNGE FLOUR MIXES SDN BHD

Group Financial Highlights

GROUP FINANCIAL HIGHLIGHTS

Group	2010 ' 000	2009 ' 000	2008 ' 000	2007 ' 000	2006 ' 000
Revenue	86,312	116,679	95,708	89,540	75,789
Operating (loss) / profit	(2,772)	(3,461)	4,408	710	(3,392)
(Loss) / Profit before tax	(3,810)	(4,968)	2,265	(759)	(4,324)
(Loss) / Profit after tax and minority interests	(3,797)	(4,980)	2,255	(1,259)	(4,145)
Shareholders' funds	23,029	26,826	31,806	29,551	30,810
Net tangible assets	23,029	26,826	31,806	29,551	30,810
Tangible assets	48,015	56,081	58,750	60,108	64,662
Basic earnings per share (sen)	(8.43)	(11.05)	5.01	(2.80)	(9.20)



Corporate Information

Board of Directors

Tan Sri Mohamed Bin Ngah Said
(Non Independent, Executive Chairman)
(Redesignated as Executive Chairman on 25 September 2009)

Lee Chee Kiean
(Non Independent, Executive Director)

Leong Chen Nyen
(Independent, Non-Executive Director)

Kushairi Bin Zaidel
(Independent, Non-Executive Director)

Ng Kay Eng
(Independent, Non-Executive Director)
(Resigned on 24 September 2009 and reappointed on 21 December 2009)

Audit Committee

Leong Chen Nyen
(Chairman, Independent, Non-Executive Director)

Kushairi Bin Zaidel
(Member, Independent, Non-Executive Director)

Ng Kay Eng
(Member, Independent, Non-Executive Director)

Company Secretary

Tan Yoke May (MACS 01531)
Inuri Management Sdn Bhd
177-3, Floor 3, Jalan Sarjana
Taman Connaught, Cheras
56000 Kuala Lumpur
Tel No: 03-91304794
Fax No: 03-91329692

Registered Office

Kawasan Lembaga Pelabuhan Kuantan
KM 25, Jalan Kuantan/Kemaman
P. O. Box 387
Tanjung Gelang
25740 Kuantan
Tel No: 09-5833611
Fax No: 09-5833618

Stock Exchange Listing

Bursa Malaysia Securities Berhad
Main Market
Code : 8303

Auditors

Ernst & Young
Chartered Accountants
11th Floor, Kompleks Teruntum
Jalan Mahkota
25000 Kuantan
Pahang Darul Makmur

Solicitor

Rajadevan & Associates
Advocates & Solicitors
Suite 20.01A, 20th Floor
Semua House
Jalan Bunus 6
50100 Kuala Lumpur

Share Registrar

Bina Management (M) Sdn Bhd
Lot 10, The Highway Centre
Jalan 51/205
46050 Petaling Jaya
Selangor Darul Ehsan
Tel No: 03-77843922
Fax No: 03-77841988

Bankers

Malayan Banking Berhad
CIMB Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad

Website

www.kfmb.com.my

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of Kuantan Flour Mills Berhad (KFM) and the audited Financial Statements of the Group and the Company for the financial year ended 31st March 2010.

Financial Review

For the financial year ended 31 March 2010, the Group recorded a lower loss of RM3.79 million as against a loss of RM4.98 million for the previous financial year despite achieving a lower revenue of RM86.31 million as compared to RM116.68 million.

At the Company level, we recorded a loss of RM3.71 million compared to a loss of RM4.62 million for the previous financial year, mainly due to reasons stated in the industry review below.

Review Of The Industry

The Group was operating under very tough conditions amidst uncertainty in the global economy that was marred by a weak and depressed financial market. The first half of the financial year saw the company going through a very tough period as a result of high material costs. The Group also faced intense competition within the industry with selling prices of non-general purpose flour dropping further.

However, performance of the Group has improved during the second half of the year as profit was recorded. This was mainly due to a more stable raw material cost and the strengthening of our Ringgit against US Dollar. Continuous efforts from the employees also contributed to improvement in the efficiency of our operations.

Subsidiary Companies

All subsidiary companies are dormant during the financial year under review.

Corporate Social Responsibility (CSR)

The Board acknowledges the importance of the CSR, the framework of which has been launched by the Bursa Malaysia on 05 September 2006.

During the financial year under review, the Group had made some contribution in kinds for underprivileged children and single parents during the Chinese New Year festive season.

Trainings are being organized from time to time for its employees of all levels. An annual dinner and festive gatherings were also held for the staffs. We firmly believe that a person should not only work hard but also play hard. In this respect, games are organized annually and competed among the various teams within the organization. We will continue to identify activities where our support can make a difference.

Prospects For The Year Ahead

There are still a lot of uncertainties on the recovery of the global economy, and the volatility of the commodities market. The Group is taking all the necessary measures to mitigate the challenges ahead. Barring any other unforeseen circumstances, the Group is optimistic of achieving better results in the future.

Acknowledgement

The Board of Directors would like to express its deepest and sincere appreciation to management and staff for their dedication and worthy contributions. I also wish to express the Board's appreciation to all customers, bankers, business associates and shareholders for their continuous support and faith in the group.

The Board of Directors would also like to extend their deepest appreciation to Dato' Setia Abdul Halim Bin Dato' Haji Abdul Rauf, Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP and Dato' Jeyaraj a/l V. Ratnaswamy who have resigned for their contributions during their tenure.

Thank you.

Tan Sri Mohamed bin Ngah Said
Executive Chairman

Corporate Governance Statement

The Board of Directors ("the Board") continues to use its best endeavour to ensure the highest standards of corporate governance to be practiced throughout the Group as a fundamental part of discharging its responsibilities in order to protect and enhance stakeholders' value. To this end, the Board fully supports the recommendations of the Malaysian Code of Corporate Governance.

The Board is pleased to set out below a description of how the Group has applied the principles as set out in the Code.

BOARD OF DIRECTORS

This is an experienced Board comprising members with a wide and diverse range of business, financial and technical backgrounds who leads the Group. A brief profile of each Director is presented on pages 14 to 15 of this Annual Report.

BOARD BALANCE

The Board currently has five (5) Directors, comprising two (2) Executives and three (3) Non-Executives. The Executive Directors implement the policies and decisions of the Board, oversee the operations and initiate business development efforts for the Group whilst the Non-Executive Directors bring a wide range of business experience and expertise to the Board's discussions and decision making.

BOARD MEETINGS

During the financial year ended 31 March 2010, the Board met on (5) occasions.

The number of Directors' meetings and attendance of Directors for the financial year under review are set out below:

Directors	Number of Board Meetings held during Tenure in office	Attendance
Tan Sri Mohamed Bin Ngah Said	5	4
Lee Chee Kiean	5	5
Leong Chen Nyen	5	5
Ng Kay Eng (resigned on 24 September 2009 and reappointed on 21 December 2009)	4	4
Kushairi Bin Zaidel	5	5
Dato' Setia Abdul Halim Bin Dato' Haji Abdul Rauf (resigned on 25 September 2009)	3	3
Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP, (Alternate: Heng Teck Boun) (both resigned on 24 September 2009)	3	2
Dato' Jeyaraj a/l V. Ratnaswamy (resigned on 24 September 2009)	3	1

SUPPLY OF INFORMATION

All Directors review the Board's reports prior to the Board meeting. The reports are being issued at least 7 days prior to the meeting in order for them to obtain further explanations and information, where necessary. The Board's reports include -

- Progress report of the Group
- Major operational and financial issues

All Directors have full access to the advice and services of the Company Secretary and the senior management staff in the Group and when required, the Directors also obtain at the Group's expense independent professional advice from external independent expert in deliberance of their duties.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The appointment of any additional Director will be made as and when it is deemed necessary by the existing Board with due consideration given to the mix of expertise and experience required for an effective Board. In accordance with the Company's Articles of Association, one-third of the Board members (except the Managing Director) shall retire from office at each Annual General Meeting and they can offer themselves for re-election. Newly appointed Directors by the Board are subject to election by the shareholders at the next Annual General Meeting held following their appointments. The Articles of Association of the Company also provide that all Directors shall retire from office once every three (3) years.

Pursuant to Section 129(6) of the Companies Act, 1965, Directors who are over the age of seventy(70) years shall retire at every AGM and may offer themselves for re-appointment to hold office until the next AGM.

DIRECTORS' TRAINING

All the Directors have attended the Mandatory Accreditation Programme ("MAP") prescribed by Bursa Malaysia Securities Berhad. The following Directors have also attended the Continuing Education Programmes conducted by various speakers during the financial year under review. The training programmes, seminars and conferences attended include:

DIRECTOR	DATE OF TRAINING	TOPIC
Lee Chee Kiean	16 to 19 June 2009	South Asian Wheat Marketing Conference
	6 July 2009	Main Market Listing Requirements
	5 August 2009	The Food Processing Industry
	7 - 8 October 2009	Understanding Costing Techniques & Pricing Decision
Leong Chen Nyen	18 - 19 June 2009	Financial Instruments: Recognition, Measurement, Disclosure & Presentation
	4 - 5 August 2009	National Tax Conference 2009
	12 August 2009	New Framework for Listing and Equity Fund Raising and Key Changes to the LR
	12 November 2009	National Seminar on Taxation 2009
Kushairi Bin Zaidel	31 March 2010	Share Capital & Capital Maintenance
Ng Kay Eng	12 May 2009	The Winding up of A Listed Company
	12 August 2009	New Framework for Listing and Equity Fund Raising and Key Changes to the LR

Subsequent to the financial year end, the Company has made arrangements for those who have not attended the Continuing Education Programme during the financial year under review to participate in training programmes where relevant to enhance their knowledge and professionalism to effectively discharge their duties and responsilities.

NOMINATION AND REMUNERATION COMMITTEES AND PROCEDURES

The Nomination and Remuneration Committees, sub-committees of the Board, under its term of reference shall recommend the new directors to the Board and to review annually the mix of skills and experiences and other qualities to enable the Board to function competently and efficiently. In furtherance to that will also recommend to the Board the framework of executive remuneration package for each Executive Director based on his duties and responsibilities. It is nevertheless the ultimate decision of the entire Board to approve the appointment of new directors and to approve the remuneration of these Directors. Directors do not participate in decisions on their own remuneration packages. The directors' fees are approved at the Annual General Meeting by the shareholders, based on the recommendation of the Board.

Both the Nomination and Remuneration Committees currently comprise the following members:
Leong Chen Nyen (Chairman)
Ng Kay Eng
Kushairi Bin Zaidel

NOMINATION AND REMUNERATION COMMITTEES AND PROCEDURES (Cont'd.)

The aggregate directors' remuneration paid or payable or otherwise made available to all directors of the Company during the financial year ended 31 March 2010 are as follows :-

	Executive	Non-Executive	Total
Salary and other emoluments	425, 400	4, 450	429, 850
Pension costs – defined Contribution plans	55, 620	-	55, 620
Fees	-	156, 000	156, 000
	481, 020	160, 450	641, 470

The number of directors of the Company whose income from the Company falling within the following bands are: -

	Executive	Non Executive
Below RM50, 000	-	6
RM50,001 to RM100,000	1	-
RM100,001 to RM150,000	-	-
RM150,001 to RM200,000	1	-
RM200,001 to RM250,000	1	-
	3	6

AUDIT COMMITTEE

The Board of Directors has established an Audit Committee. The membership of this Committee, the terms of reference and its activities are set out on pages pages 10 to 12.

RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The Company values its dialogue with both institutional shareholders and private investors, and recognizes the timely and efficient dissemination of relevant information to be provided to them. In this regard, it strictly adheres to the disclosure requirement of Bursa Malaysia Securities Berhad (BMSB). Among others, information is communicated through the following:

Announcements made to BMSB including Quarterly Results and Annual Results
Annual Reports
Press Interview
Analyst briefing with fund managers and potential investors
The company's website at www.kfmb.com.my

Apart from the mandatory announcements of the Group's financial results and corporate developments to the BMSB, the Company also responds to members during the annual general meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is the principal forum for dialogue and interaction with the shareholders wherein shareholders are given opportunity to raise questions pertaining to the business activities and direction of the Group. Notice and annual reports are sent out to shareholders at least 21 days before the date of the meeting. The Board and management are available to provide response to questions from shareholders during the meeting.

Items of special business included in the notice of the meeting will be accompanied by an explanatory statement to facilitate full understanding and evaluation of the issues involved.

RELATIONSHIP WITH EXTERNAL AUDITORS

The role of Audit Committee in relation to the external auditors is described on page 12. The Company has always maintained a close and transparent relationship with its auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

FINANCIAL REPORTING

In presenting the annual financial statements and quarterly announcements to shareholders, the directors aim to present a balanced and understandable assessment of the Group's financial performance, financial position and financial prospects. The Audit Committee assists the Board in scrutinizing information for disclosure to ensure accuracy, adequacy and completeness.

INTERNAL CONTROL

The Group's Internal Control Statement is set up at page 13 of this Annual Report.

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

The financial statements for the financial year has been made out in accordance with the Financial Reporting Standard and the Companies Act, 1965 and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flow of the Group and of the Company for the financial year ended.

In preparing the financial statements, the Directors have:
- selected 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 financial statements on the 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 1965.

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.

OTHER INFORMATION

NON AUDIT FEE

The amount on non-audit fees paid to external auditors for the financial year ended 31 March 2010 is RM15,000.

ADDITIONAL COMPLIANCE INFORMATION

In compliance with the Bursa Securities Listing Requirements, the following additional information is provided:-
During the financial year under review, there were no:
- Utilisation of Proceeds;
- Share buybacks;
- Options, Warrants or Convertible Securities;
- American Depository Receipt ("ADR") / Global Depository Receipt ("GDR") Programme Sponsored by the Company;
- Sanctions and/or Penalties;
- Profit Estimate, Forecasts or Projection;
- Profit Guarantee;
- Material Contracts involving directors and major shareholders' interest;
- Contracts Relating to Loans involving directors and major shareholders' interest;
- Revaluation on Landed Properties;
- Recurrent Related Party Transaction of Revenue or Trading Nature.

Audit Committee Report

The members of the Audit Committee of the Company are pleased to present their report for the financial year ended 31 March 2010.

The present members of the Audit Committee comprise: -

Leong Chen Nyen
(Chairman, Independent, Non-Executive Director)/(Re-designated as Chairman on 24 September 2009)

Kushairi bin Zaidel
(Member, Independent, Non-Executive Director)/(Appointed as member on 24 September 2009)

Ng Kay Eng
(Member, Independent, Non-Executive Director)/(Resigned on 24 September 2009 and reappointed as member on 21 December 2009)

Dato' Jeyaraj a/l V. Ratnaswamy
(Chairman, Independent, Non-Executive Director)/(Resigned as Chairman and member on 24 September 2009)

MEETINGS

The Committee shall meet at least (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 Audit Committee.

The number of Audit Committee meetings and the attendance for the financial year in view are as set out below:

Member	Number Of Audit Committee Meetings held during tenure in office	Attendance
Leong Chen Nyen (Re-designated as Chairman on 24 September 2009)	5	5
Kushairi bin Zaidel (Appointed on 24 September 2009)	2	2
Ng Kay Eng (Resigned on 24 September 2009 and reappointed on 21 December 2009)	4	4
Dato' Jeyaraj a/l V. Ratnaswamy (Resigned on 24 September 2009)	3	1

SUMMARY OF ACTIVITIES

The Audit Committee carried out the following activities during the financial year ended 31 March 2010:

a) Reviewed internal audit reports presented and considered the findings on the Group's operations through the review of internal audit reports tabled and management responses thereof;

b) Reviewed the Internal Audit Plans for the financial year;

c) Reviewed the unaudited quarterly financial statements and the annual 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. Any significant issues resulting from the audit of the financial statements by external auditors were noted.

TERMS OF REFERENCE

The Audit Committee is governed by the following terms of reference:

1) Membership

The Committee shall be appointed by the Board from amongst the Directors and shall consist of not less than three (3) members, majority of whom shall comprise Independent Non-Executive Directors. All members of the Committee are Non-Executive Directors. The members of the Audit Committee shall elect a Chairman from among themselves who shall be an Independent Director. No Alternate Director shall be appointed as member of the Audit Committee.

At least one member of the Audit Committee: -

- must be a member of the Malaysian Institute of Accountants or
- if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years working experience and:
  - he must passed the examination specified in Part 1 of the First Schedule of the Accountants Act, 1967;
  - he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967;
  - must have a degree/master/doctorate in accounting or finance and at least 3 years post qualification experience in accounting or finance;
  - must have at least 7 years experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

In the event of any vacancy in the Audit Committee resulting in a breach in the Bursa Securities Listing Requirements, the vacancy must be filled within three (3) months.

2) Authority

The Committee is authorized by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorized by the Board to obtain external legal or other independent professional advice as necessary.

3) Duties

The duties of the Committee shall be:

- To recommend the appointment of external auditors and the audit fee.
- To discuss with the external auditors, prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved.
- To review the quarterly announcements to Bursa Malaysia Securities Berhad and year end annual financial statements before submission to the Board, focusing on:
  - going concern assumption.
  - compliance with accounting standards and regulatory requirements.

TERMS OF REFERENCE (CONT'D.)

3) Duties (Cont'd.)

- any changes in accounting policies and practices.
- significant issues arising from the audit.
- major judgmental areas.

- To discuss problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss (in the absence of management, where necessary).
- To review the external auditors' report and recommendations and the management's response.
- To oversee internal audit function by:
  - reviewing the adequacy of scope, functions and resources of the internal auditors and to ensure that it has the necessary authority to carry out its work.
  - reviewing internal audit programme.
  - ensuring coordination of external audit with internal audit.
  - considering the major findings of internal audit investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function.
- To monitor related party transactions entered into by the Company and the Group, and to ensure that the Directors report such transactions annually to shareholders via annual reports.
- To review the effectiveness of internal control systems.

4) 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 is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review.

The internal audit fee incurred for the financial year ended 31 March 2010 was RM37,000.00.

5) Access and relationship with External Auditors

The committee shall have unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to senior management of the Company and its subsidiaries. The committee is also authorized to take such independent professional advice as it considers necessary.

In the performance of its duties and fulfilling its fiduciary responsibilities as determined by the Board and at all times at the cost of the Company, the committee:-

(i) have authority to investigate any matter within its terms of reference;

(ii) have the resources which are required to perform its duties, have full and unrestricted access to any information pertaining to the Group;

(iii) have direct communication channel with external auditors and person(s) carrying out the internal audit function or activity (if any);

(iv) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;

(v) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Group, whenever deemed necessary ; and

(vi) be able to report promptly to the BMSB on any matters reported by it to the Board of the Company, which has not been satisfactorily resolved in a breach of the Listing Requirements.

INTRODUCTION

In compliance with the Malaysian Code of Corporate Governance requirements that a listed entity is required to maintain a sound system of internal control in order to safeguard shareholders' investments and the Group's assets, the Board of Directors ("Board") has prepared this Statement of Internal Control pursuant to paragraph 15.26(b) of the Bursa Malaysia Securities Berhad's Listing Requirements and in accordance with the Statement on Internal Control – Guidance for Directors of Public Listed Companies. This statement outlines the state, nature and scope of internal control of the Group during the financial year under review.

BOARD RESPONSIBILITIES

The Board is aware of their responsibilities and is committed to maintain a sound system of internal controls and risk management practices. An appropriate control mechanism and framework has been established under the system of internal control and its adequacy and integrity is being reviewed regularly. However, such systems are designed only to manage and not eliminate the risk of failure and can only provide reasonable and not absolute assurance against any misstatement or losses. The internal control system covers all aspect of financial, organizational, operational, compliance controls as well as risk management procedures.

RISK MANAGEMENT AND INTERNAL AUDIT

The Board recognizes the importance of maintaining a sound system of internal control and effective risk management. The management had established a risk management process to identify, evaluate and manage significant risks faced by the Group and take appropriate measures to mitigate any such risks. The Board is committed to continuously improve and strengthen the risk management process of the Group. Evaluation of the company's policies, procedures and objectives will be continuously reviewed and the Board will be kept updated on any significant changes in the business. The financial performance status and all other key business indicators of the Group will also be reported to the Board on a quarterly basis.

During the financial year under review, the internal audit function was conducted by an external professional firm of internal auditors to independently assess the adequacy, efficiency and effectiveness of the internal control function of the Group. They would report to the Audit Committee on the status of all audit issues raised until the issues have been satisfactorily resolved. The Audit Committee would ensure that the internal auditors have the sufficient resources to perform their functions adequately.

System of Internal Control

The following key elements of the System of Internal Control have been established within the Group:

- A well defined organization structure with clear reporting lines, responsibilities and delegated authority which is updated regularly;
- Well documented internal policies, objectives and operational procedures formulated in compliance with ISO certification;
- Quarterly review of financial results by the Audit Committee and the Board;
- Executive Director's active direct involvement in the business operations;
- Review of annual budgets and approved by the Board for accountability and transparency;
- Regular meetings to discuss and resolve operational and other major issues affecting the Group;
- Structured training and development programs conducted both internally and externally covering all levels of staff to upgrade their knowledge, skill and competency.

This statement is made in accordance with a resolution of the Directors dated 23 August 2010.

Board Of Directors

Tan Sri Mohamed Bin Ngah Said

Tan Sri Mohamed Bin Ngah Said, is a Malaysian, aged 72, is currently the Executive Chairman of the Group. He graduated from the Royal Military College in Malaysia and the Royal Military Academy in Sandhurst. He joined the Royal Malaysian Air Force in 1958 and retired as the Chief of the Royal Malaysian Air Force after a career spanning more than 30 years with the Air Force.

Tan Sri Mohamed does not have any interest in the securities of the Company, neither does he have any family relationship with any director and/or substantial shareholder of the Company, nor conflict of interest with the Company. He has not been convicted for any criminal offences within the past ten years.

Lee Chee Kiean

Lee Chee Kiean, is a Malaysian, aged 47, holds a Bachelor Degree in Economics from the University of Dalhousie, Canada. He joined KFMB in 1986 as a Marketing Executive and has held various Managerial positions in the Group and is currently the Executive Director / Chief Executive Officer of the Group. He is also the Deputy Chairman of the Flour Millers Association of Malaysia.

Mr Lee has nominal interest in the securities of the Company, he has no family relationship with any director and/or substantial shareholder of the Company, nor conflict of interest with the Company. He has not been convicted for any criminal offences within the past ten years.

Leong Chen Nyen

Leong Chen Nyen, is a Malaysian, aged 52, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accounts, United Kingdom and a member of the Institute of Certified Public Accountants of Singapore.

He was formerly with Arthur Young (presently known as Ernst & Young), Kuala Lumpur and Deloitte & Touche, Singapore. He started his own accounting practice in March 1994 and is now the Senior Partner of Leong Ho & Associates.

He is presently the Chairman of the Audit, Remuneration and Nomination Committees.

Mr Leong does not have any interest in the securities of the Company, neither does he have any family relationship with any director and/or substantial shareholder of the Company, nor conflict of interest with the Company. He has not been convicted for any criminal offences within the past ten years.

Ng Kay Eng

Ng Kay Eng, is a Malaysian, aged 46, was admitted as an Advocate and Solicitor in the High Court in New Zealand in 1990 and in the High Court of Malaya in 1991. Currently a partner with Messrs Shamiah K.E. Ng & Siva, he began his career in 1991 with various firms and in February 1995, set up his own legal practice under the name of Messrs K.E. Ng & Co., which in July 1996 merged into the current partnership.

He presently sits on the Audit, Remuneration and Nomination Committees as an ordinary member.

Mr Ng does not have any interest in the securities of the Company, neither does he have any family relationship with any director and/or substantial shareholder of the Company, nor conflict of interest with the Company. He has not been convicted for any criminal offences within the past ten years.

Kushairi Bin Zaidel

Kushairi Bin Zaidel, , is a Malaysian, aged 52, as an Accountant, he started his professional service career in Sarawak as an Auditor with HRM/Arthur Anderson. He then embarked on his corporate career in 1988 when he joined a very established property development company, Borneo Development Sdn Bhd which is jointly owned by the State Government of Sarawak and Sabah. He left the corporate sector to pursue his entrepreneurship endeavours in 1995.

His formal education includes a Bachelor of Business (Accountancy) and other formal qualifications namely Chartered Company Secretary and Certified Financial Planner. He is a member of the Australian Society of CPAs, the Malaysian Institute of Chartered Secretaries & Administrators and the Financial Planning Association of Malaysia.

He presently sits on the Audit, Remuneration and Nomination Committees as an ordinary member.

Encik Kushairi does not have any interest in the securities of the Company, neither does he have any family relationship with any director and/or substantial shareholder of the Company, nor conflict of interest with the Company. He has not been convicted for any criminal offences within the past ten years.

Directors' Report

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2010.

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 have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

	Group RM	Company RM
Loss for the year	(3,796,748)	(3,713,203)
Attributable to:		
Equity holders of the Company	(3,796,748)	(3,713,203)
Minority interests	-	-
	(3,796,748)	(3,713,203)

There were no material transfers to or from reserves or provisions during the financial year.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividend for the current financial year.

DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Mohamed Bin Ngah Said	
Lee Chee Kiean	
Leong Chen Nyen	
Kushairi Bin Zaidel	
Ng Kay Eng	(resigned on 24 September 2009 and reappointed on 21 December 2009)
Dato' Setia Abdul Halim bin Dato' Haji Abdul Rauf	(resigned on 25 September 2009)
Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP	(resigned on 24 September 2009)
Dato' Jeyaraj a/l V. Ratnaswamy	(resigned on 24 September 2009)
Heng Teck Boun (alternate director to Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP)	(resigned on 24 September 2009)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might 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 benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTEREST

	Number of ordinary shares of RM1.00 each			
	At 1.4.2009	**Acquired**	**Sold**	**At 31.3.2010**
The Company				
Direct interest:				
Lee Chee Kiean	10,000	-	-	10,000
Subsidiary - KFM Marketing Sdn. Bhd.				
Direct interest:				
Lee Chee Kiean	10,000	-	-	10,000

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

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

 (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

 (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent;
 and

OTHER STATUTORY INFORMATION (CONT'D.)

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) 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 liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) 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 will or may affect the ability of the Group or of the Company to meet their obligations when they fall due;
and

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

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 July 2010.

Tan Sri Mohamed Bin Ngah Said **Lee Chee Kiean**

Statement By Directors
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Tan Sri Mohamed bin Ngah Said and Lee Chee Kiean, being two of the directors of Kuantan Flour Mills Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 22 to 56 are drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2010 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 July 2010.

Tan Sri Mohamed Bin Ngah Said

Lee Chee Kiean

Statutory Declaration
PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, CHAN SEN SAN, being the officer primarily responsible for the financial management of KUANTAN FLOUR MILLS BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 22 to 56 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.

Subscribed and solemnly declared by
the abovenamed Chan Sen San
at Kuantan in the state of
Pahang Darul Makmur on 19 July 2010.

Chan Sen San

Before me,
Yap Ah Chai
Commissioner for Oaths
C 026

Independent Auditors' Report

TO THE MEMBERS OF KUANTAN FLOUR MILLS BERHAD (INCORPORATED IN MALAYSIA)

Report on the financial statements

We have audited the financial statements of Kuantan Flour Mills Berhad, which comprise the balance sheets as at 31 March 2010 of the Group and of the Company, the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 56.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit envidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2010 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

In our opinion, except for a dormant subsidiary, KFM-Bunge Flour Mixes Sdn. Bhd. which registers have not been properly updated, the registers required by the Act to be kept by the Company and by its other subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ERNST & YOUNG
AF: 0039
Chartered Accountants

Sandra Segaran a/l Muniandy@Krishnan
No. 2882/01/11(J)
Chartered Accountant

Kuantan, Pahang Darul Makmur, Malaysia
19 July 2010

Income Statements

FOR THE YEAR ENDED 31 MARCH 2010

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Revenue	3	86,312,129	116,679,044	86,312,129	116,679,044
Cost of sales	4	(84,074,577)	(114,721,961)	(84,074,577)	(114,693,080)
Gross profit		2,237,552	1,957,083	2,237,552	1,985,964
Other income		598,780	1,227,813	635,047	1,351,463
Administrative expenses		(3,395,449)	(4,293,683)	(3,347,475)	(4,089,299)
Selling expenses		(2,212,880)	(2,351,979)	(2,212,880)	(2,351,979)
Loss from operations		(2,771,997)	(3,460,766)	(2,687,756)	(3,103,851)
Finance costs	5	(1,037,659)	(1,507,499)	(1,037,198)	(1,503,862)
Loss before tax	6	(3,809,656)	(4,968,265)	(3,724,954)	(4,607,713)
Income tax benefit/(expense)	9	12,908	(11,751)	11,751	(11,751)
Loss for the year		(3,796,748)	(4,980,016)	(3,713,203)	(4,619,464)
Attributable to:					
Equity holders of the Company		(3,796,748)	(4,980,016)	(3,713,203)	(4,619,464)
Minority interests		-	-	-	-
		(3,796,748)	(4,980,016)	(3,713,203)	(4,619,464)
Loss per share attributable to equity holders of the Company (sen)					
- Basic	10(a)	(8.43)	(11.05)		
- Diluted	10(b)	-	-		

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

Balance Sheets

AS AT 31 MARCH 2010

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
ASSETS					
Non-current assets					
Property, plant and equipment	11	24,324,130	24,732,537	24,101,381	24,466,009
Investments in subsidiaries	12	-	-	8	8
Other investments	13	1,735,500	1,735,500	1,735,500	1,735,500
		26,059,630	26,468,037	25,836,889	26,201,517
Current assets					
Inventories	15	6,107,192	6,942,130	6,107,192	6,942,130
Trade and other receivables	16	14,159,904	20,497,368	14,145,492	20,415,885
Marketable securities	17	16,677	16,677	16,677	16,677
Cash and bank balances	18	1,671,982	2,156,611	1,650,933	2,131,377
		21,955,755	29,612,786	21,920,294	29,506,069
TOTAL ASSETS		48,015,385	56,080,823	47,757,183	55,707,586
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	22	45,053,000	45,053,000	45,053,000	45,053,000
Share premium	22	6,446,933	6,446,933	6,446,933	6,446,933
Accumulated losses		(28,470,502)	(24,673,754)	(28,700,385)	(24,987,182)
		23,029,431	26,826,179	22,799,548	26,512,751
Minority interests		2	2	-	-
Total equity		23,029,433	26,826,181	22,799,548	26,512,751
Non-current liability					
Borrowings	19	4,257,233	9,547,612	4,257,233	9,547,612
Current liabilities					
Borrowings	19	6,635,679	5,178,137	6,635,679	5,159,987
Trade and other payables	21	14,093,040	14,528,893	14,064,723	14,487,236
		20,728,719	19,707,030	20,700,402	19,647,223
TOTAL LIABILITIES		24,985,952	29,254,642	24,957,635	29,194,835
TOTAL EQUITY AND LIABILITIES		48,015,385	56,080,823	47,757,183	55,707,586

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

Consolidated Statement Of Changes In Equity

FOR THE YEAR ENDED 31 MARCH 2010

	<------------- Attributable to equity holders of the Company			------------->		
	<------- Non-distributable ------>					
	Share Capital (Note 22) RM	Share Premium (Note 22) RM	(Accumulated Losses) RM	Total RM	Minority Interests RM	Total Equity RM
At 1 April 2008	45,053,000	6,446,933	(19,693,738)	31,806,195	2	31,806,197
Loss for the year	-	-	(4,980,016)	(4,980,016)	-	(4,980,016)
At 31 March 2009	45,053,000	6,446,933	(24,673,754)	26,826,179	2	26,826,181
At 1 April 2009	45,053,000	6,446,933	(24,673,754)	26,826,179	2	26,826,181
Loss for the year	-	-	(3,796,748)	(3,796,748)	-	(3,796,748)
At 31 March 2010	45,053,000	6,446,933	(28,470,502)	23,029,431	2	23,029,433

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

Company Statement Of Changes In Equity

FOR THE YEAR ENDED 31 MARCH 2010

	<--------- Non-distributable	--------->		
	Share Capital (Note 22) RM	Share Premium (Note 22) RM	Accumulated Losses RM	Total RM
At 1 April 2008	45,053,000	6,446,933	(20,367,718)	31,132,215
Loss for the year	-	-	(4,619,464)	(4,619,464)
At 31 March 2009	45,053,000	6,446,933	(24,987,182)	26,512,751
At 1 April 2009	45,053,000	6,446,933	(24,987,182)	26,512,751
Loss for the year	-	-	(3,713,203)	(3,713,203)
At 31 March 2010	45,053,000	6,446,933	(28,700,385)	22,799,548

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

Cash Flow Statements

FOR THE YEAR ENDED 31 MARCH 2010

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Cash Flows from Operating Activities					
Loss before tax		(3,809,656)	(4,968,265)	(3,724,954)	(4,607,713)
Adjustments for:					
Depreciation	6	992,585	1,071,884	948,806	1,001,617
Loss/(gain) on disposal of property, plant and equipment	6	32,223	(162,655)	32,223	(162,655)
Property, plant and equipment written off	6	43,486	7,484	43,486	-
Unrealised foreign exchange (gain)/loss	6	(412,169)	162,582	(412,169)	162,582
Reversal of provision for diminution in value of investment	6	-	(276,584)	-	(276,584)
(Reversal)/provision for onerous contract	6	(2,445,989)	2,445,989	(2,445,989)	2,445,989
Provision for doubtful debts	6	69,649	248,053	69,649	154,159
Bad debts written off	6	501	14,074	345	200
Reversal of provision for doubtful debts	6	(119,663)	(726,318)	(68,261)	(856,685)
Short term accumulating compensated absences	7	(8,993)	29,443	(8,993)	29,443
Write-down of inventories	6	81,946	6,101	81,946	6,101
Interest income	6	(23,328)	(47,003)	(23,328)	(47,003)
Interest expense	5	1,037,659	1,507,499	1,037,198	1,503,862
Operating loss before working capital changes		(4,561,749)	(687,716)	(4,470,041)	(646,687)
Decrease in inventories		752,992	3,894,392	752,992	3,894,392
Decrease in receivables		5,979,015	533,240	5,892,412	601,458
Increase in payables		2,829,017	2,190,350	2,842,357	2,231,558
Cash generated from operations		4,999,275	5,930,266	5,017,720	6,080,721
Interest paid		(1,037,659)	(1,507,499)	(1,037,198)	(1,503,862)
Tax paid		(9,720)	-	(9,720)	-
Tax refund		32,871	75,356	-	75,356
Net cash generated from operating activities		3,984,767	4,498,123	3,970,802	4,652,215

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(760,187)	(843,960)	(760,187)	(953,074)
Proceeds from disposal of property, plant and equipment		100,300	188,000	100,300	188,000
Interest received		23,328	47,003	23,328	47,003
Net cash used in investing activities		(636,559)	(608,957)	(636,559)	(718,071)
Cash Flows from Financing Activities					
Repayment of hire purchase financing		(700,540)	(650,598)	(700,540)	(650,598)
Repayment of term loans		(3,556,147)	(3,841,489)	(3,556,147)	(3,841,489)
Drawdown of term loan		442,000	779,200	442,000	779,200
Net cash used in financing activities		(3,814,687)	(3,712,887)	(3,814,687)	(3,712,887)
Net (decrease)/increase in cash and cash equivalents		(466,479)	176,279	(480,444)	221,257
Cash and cash equivalents at beginning of year		2,138,461	1,962,182	2,131,377	1,910,120
Cash and cash equivalents at end of year	18	1,671,982	2,138,461	1,650,933	2,131,377

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

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The registered office of the Company is located at Kawasan Lembaga Pelabuhan Kuantan, KM25, Jalan Kuantan/Kemaman, Tanjung Gelang, P.O.Box 387, 25740 Kuantan, Pahang Darul Makmur.

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 have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 19 July 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements comply with Financial Reporting Standards ("FRSs") and the Companies Act 1965 in Malaysia.

The financial statements of the Group and of the Company have also been prepared on a historical cost basis.

The financial statements are presented in Ringgit Malaysia (RM).

2.2 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

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. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(a) Subsidiaries and Basis of Consolidation (Cont'd.)

(ii) Basis of Consolidation (Cont'd.)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Freehold land has an unlimited useful life and therefore is not depreciated. Building under construction is also not depreciated as this asset is not available for use. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings, factory and civil works	2% - 5%
Plant and machinery	3.33%
Equipment and fixtures	20%
Motor vehicles	5% - 20%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(c) Impairment of non-financial assets

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows 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 considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

(d) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

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

(e) Financial instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash in hand and at bank and deposits at call, net of outstanding bank overdraft.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(e) Financial instruments (cont'd.)

(ii) Other non-current investments

Non-current investments other than investments in subsidiaries are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(iii) Marketable securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in the profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

(iv) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(v) Payables

Payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(vi) Interest-bearing loans and borrowings

Interest-bearing bank loans and overdraft are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

(vii) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(f) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Leases (Cont'd.)

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2 (b).

(g) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit and loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

(i) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(j) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions 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 the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(j) Employee benefits (Cont'd.)

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, the Group makes such contributions to the Employees Provident Fund ("EPF").

(k) Foreign currencies

(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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rate prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included 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 except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(l) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised net of sales taxes and discounts upon the transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(l) Revenue recognition (Cont'd.)

(ii) Revenue from services

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

(iii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iv) Dividend income

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

(m) Government grants

Government grants are recognised initially at their fair value in the balance sheet as deferred income where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants that compensate the Group for expenses incurred are recognised as income upon recognition of sale.

2.3 Standards and Interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following new FRSs and Interpretations, and Amendments to certain Standards and Interpretations were issued but not yet effective and have not been applied by the Group and the Company, which are:

Effective for financial periods beginning on or after 1 July 2009:

FRS 8	Operating Segments

Effective for financial periods beginning on or after 1 January 2010:

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements (revised)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 1 and FRS 127	First-time Adoption of Financial Reporting Standards and Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 139, FRS 7 and IC Interpretation 9	Financial Instruments: Recognition and Measurement, Disclosures and Reassessment of Embedded Derivatives
Amendments to FRSs	Improvement to FRSs (2009)
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and Interpretations issued but not yet effective (cont'd.)

Effective for financial periods beginning on or after 1 March 2010:

Amendments to FRS 132	Classification of Rights Issues

Effective for financial periods beginning on or after 1 July 2010:

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations (revised)
FRS 127	Consolidated and Separate Financial Statements (amended)
Amendments to FRS 2	Share-based Payment
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138	Intangible Assets
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 12	Service Concession Arrangements
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners

Effective for financial periods beginning on or after 1 January 2011:

Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 7	Improving Disclosures about Financial Instruments

The Group and the Company plan to adopt the above pronouncements when they become effective in the respective financial period. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Group and the Company upon their initial application.

Pronouncements effective for financial periods beginning on or after 1 July 2009

FRS 8: Operating Segment

FRS 8 replaces FRS 114_{2004}: Segment Reporting and requires a 'management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. As a result, the Group's external segmental reporting will be based on the internal reporting to the "chief executive decision maker", who makes decisions on the allocation of resources and assesses the performance of the reportable segments. As this is a disclosure standard, there will be no impact on the financial position or results of the Group and of the Company.

Pronouncements effective for financial periods beginning on or after 1 January 2010

FRS 101: Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is currently evaluating the format to adopt. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. This revised FRS does not have any impact on the financial position and results of the Group and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and Interpretations issued but not yet effective (cont'd.)

Pronouncements effective for financial periods beginning on or after 1 January 2010 (cont'd.)

FRS 123: Borrowing Costs

This Standard supersedes FRS 123$_{2004}$: Borrowing Costs that removes the option of expensing borrowing costs and requires capitalisation of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense. The Group's current accounting policy is to expense the borrowing costs in the period which they are incurred. In accordance with the transitional provisions of the Standard, the Group will apply the change in accounting policy prospectively for which the commencement date for capitalisation of borrowing cost on qualifying assets is on or after the financial period 1 January 2010.

FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures

The new Standard on FRS 139: Financial Instruments: Recognition and Measurement establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Requirements for presenting information about financial instruments are in FRS 132: Financial Instruments: Presentation and the requirements for disclosing information about financial instruments are in FRS 7: Financial Instruments: Disclosures.

FRS 7: Financial Instruments: Disclosures is a new Standard that requires new disclosures in relation to financial instruments. The Standard is considered to result in increased disclosures, both quantitative and qualitative of the Group's and Company's exposure to risks, enhanced disclosure regarding components of the Group's and Company's financial position and performance, and possible changes to the way of presenting certain items in the financial statements. In accordance with the respective transitional provisions, the Group and the Company are exempted from disclosing the possible impact to the financial statements upon the initial application.

Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendment to FRS 1 allows first-time adopters to use costs, determined in accordance with FRS 127, or deemed cost of either fair value (in accordance with FRS 139) or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate opening FRS balance sheet. In the amendment to FRS 127, there is no longer a distinction between pre-acquisition and post-acquisition dividends.

The amendment also requires the cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) to be measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent. The amendments also remove the definition of the cost method from FRS 127 and will be applied prospectively that affect only the financial statements of the Company and do not have an impact on the financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and Interpretations issued but not yet effective (cont'd.)

Pronouncements effective for financial periods beginning on or after 1 January 2010 (cont'd.)

Amendments to FRSs 'Improvements to FRSs (2009)'

FRS 7 Financial Instruments: Disclosures: Clarifies on the presentation of finance costs whereby interest income is not a component of finance costs.

FRS 8 Operating Segments: Clarifies that segment information with respect to total asset is required only if they are included in measures of segment profit or loss that are used by the 'chief operating decision maker'.

FRS101 Presentation of Financial Statements: Clarifies that financial instruments classified as held for trading in accordance with FRS139 Financial Instruments: Recognition and Measurement are not automatically presented as current in the balance sheet. The amendment further clarifies that the classification of the liability component of a convertible instrument as current or non-current is not affected by the terms that could, at the option of the holder, result in settlement of the liability by the issue of equity instruments.

FRS107 Statement of Cash Flows (formerly known as Cash Flow Statements): Clarifies that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors: Clarifies that only implementation guidance that is an integral part of an FRS is mandatory when selecting accounting policies.

FRS 110 Events after the Reporting Period (formerly known as Events After the Balance Sheet Date): Clarifies that dividends declared after the end of the reporting period are not liabilities as at the balance sheet date.

FRS 116 Property, Plant and Equipment: The amendment replaces the term "net selling price" with "fair value less costs to sell". It also clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

FRS 117 Leases: Clarifies on the classification of leases of land and buildings.

FRS 118 Revenue: The amendment provides additional guidance on whether an entity is acting as a principal or an agent. It also aligns the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest by replacing the term 'direct costs' with 'transaction costs' as defined in FRS 139.

FRS 119 Employee Benefits: The amendment revises the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. It clarifies that the costs of administering the plan may be either recognised in the rate of return on plan assets or included in the actuarial assumptions used to measure the defined benefit obligation. The amendment further clarifies that amendment to plans that result

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and Interpretations issued but not yet effective (cont'd.)

Pronouncements effective for financial periods beginning on or after 1 January 2010 (cont'd.)

`Amendments to FRSs 'Improvements to FRSs (2009)' (cont'd.)

FRS 119 Employee Benefits: *(cont'd.)*
in a reduction in benefits related to future services are curtailments. It also deleted the reference to the recognition of contingent liabilities to ensure consistency with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

FRS 123 Borrowing Costs: The definition of borrowing costs is aligned with FRS 139 by referring to the use of effective interest rate as a component of borrowing cost.

FRS 127 Consolidated and Separate Financial Statements: The amendment clarifies that when a parent entity accounts for a subsidiary at fair value in accordance with FRS 139 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

FRS 134 Interim Financial Reporting: Clarifies that earnings per share is to be disclosed in interim financial reports if an entity is within the scope of FRS 133: Earnings per Share.

FRS 136 Impairment of Assets: Clarifies that when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. The amendment further clarifies that the largest cash-generating unit for group of units to which goodwill should be allocated for purposes of impairment testing is an operating segment as defined in FRS 8.

FRS 138 Intangible Assets: Clarifies that expenditure on advertising and promotional activities is recognised as an expense when an entity either has the right to access the goods or has received the service. The amendments also provide guidance regarding valuation techniques to measure the fair value of an intangible asset acquired in a business combination when there is no active market for the asset. In addition, the reference to "there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method" has been removed.

FRS 139 Financial Instruments: Recognition and Measurement: Clarifies that changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. It also clarifies on the scope exemption for business combination contracts. The amendments remove the reference in FRS 139 to a 'segment' when determining whether an instrument qualifies as a hedge and requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting. It also provides additional guidance on determining whether loan prepayment penalties result in an embedded derivates that needs to be separated. In addition, the amendments state that the gains or losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards and Interpretations issued but not yet effective (cont'd.)

Pronouncements effective for financial periods beginning on or after 1 January 2010 (cont'd.)

IC Interpretation 10: Interim Financial Reporting and Impairment

This IC prohibits impairment losses recognised in an interim period on goodwill or investments in equity instruments or financial assets carried at cost to be reversed at a subsequent balance sheet date.

IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions

This IC provides guidance on arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-based scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The IC also addresses how the subsidiaries, in their separate financial instruments, should account for schemes when their employees receive equity instruments of the parent.

Pronouncements effective for financial periods beginning on or after 1 July 2010

FRS 1: First-time Adoption of Financial Reporting Standards

This FRS supersedes FRS 1 (issued in 2005 and amended in May 2009). The Standard sets out the procedures that an entity must follow when it adopts FRSs for the first time as the basis for preparing its financial statements.

FRS 3: Business Combinations (revised) and FRS 127: Consolidated and Separate Financial Statements (amended)

FRS 3 (revised) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and to be recorded in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as loss of control of a subsidiary.

The changes by FRS 3 (revised) and FRS127 (amended) will be applied prospectively and only affect future acquisition or loss of control of subsidiaries and transactions with non-controlling interests.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Significant accounting estimates and judgements

(a) Critical judgements made in applying accounting policies

There were no significant judgements made in applying the Group's accounting policies which may have significant effect 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be 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.

3. REVENUE

	Group		Company	
	2010 RM	**2009 RM**	**2010 RM**	**2009 RM**
Sale of flour and related products	83,554,038	113,055,463	83,554,038	113,055,463
Transportation income	2,133,458	2,243,863	2,133,458	2,243,863
Government grant	624,633	1,379,718	624,633	1,379,718
	86,312,129	116,679,044	86,312,129	116,679,044

4. COST OF SALES

	Group		Company	
	2010 RM	**2009 RM**	**2010 RM**	**2009 RM**
Cost of inventories sold	82,532,534	113,174,200	82,532,534	113,145,319
Cost of services rendered	1,542,043	1,547,761	1,542,043	1,547,761
	84,074,577	114,721,961	84,074,577	114,693,080

5. FINANCE COSTS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest expense on:				
Hire purchase	96,932	129,595	96,932	129,595
Term loans	940,266	1,355,604	940,266	1,355,604
Overdraft	461	3,637	-	-
Others	-	18,663	-	18,663
	1,037,659	1,507,499	1,037,198	1,503,862

6. LOSS BEFORE TAX

The following amounts have been included in arriving at loss before tax:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Depreciation of property, plant and equipment (Note 11)	992,585	1,071,884	948,806	1,001,617
Auditors' remuneration	53,500	50,500	48,000	45,000
Provision for doubtful debts	69,649	248,053	69,649	154,159
Employee benefits expense (Note 7)	4,831,443	5,693,068	4,831,443	5,693,068
Directors' fee (Note 8)	156,000	158,000	156,000	158,000
Property, plant and equipment written off	43,486	7,484	43,486	-
Rental of land and buildings	606,105	561,569	606,105	561,569
Reversal of provision for doubtful debts	(119,663)	(726,318)	(68,261)	(856,685)
Bad debts written off	501	14,074	345	200
Write down of inventories	81,946	6,101	81,946	6,101
Realised net foreign exchange gain	(26,538)	(17,694)	(26,538)	(17,694)
Unrealised net foreign exchange (gain)/loss	(412,169)	162,582	(412,169)	162,582
(Reversal)/provision for onerous contract	(2,445,989)	2,445,989	(2,445,989)	2,445,989
Interest income	(23,328)	(47,003)	(23,328)	(47,003)
Loss/(gain) on disposal of property, plant and equipment	32,223	(162,655)	32,223	(162,655)
Reversal of provision for diminution in value of investment	-	(276,584)	-	(276,584)

7. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Wages and salaries	4,117,335	4,736,844	4,117,335	4,736,844
Social security contributions	57,931	62,949	57,931	62,949
Short-term accumulating compensated absences	(8,993)	29,443	(8,993)	29,443
Pension costs - defined contribution plan	507,802	595,400	507,802	595,400
Other staff related expenses	157,368	268,432	157,368	268,432
	4,831,443	5,693,068	4,831,443	5,693,068

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM481,020 (2009: RM538,439) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

	Group and Company	
	2010	2009
	RM	RM
Executive directors' remuneration (Note 7):		
Salaries and other emoluments	425,400	480,839
Pension costs - defined contribution plan	55,620	57,600
	481,020	538,439
Non-executive directors' remuneration (Note 6):		
Fees	156,000	158,000
Other emoluments	4,450	5,250
	160,450	163,250
Total directors' remuneration (Note 23)	641,470	701,689

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

	Number of Directors	
	2010	2009
Executive directors:		
RM50,001 - RM100,000	1	-
RM100,001 - RM150,000	-	1
RM150,001 - RM200,000	1	1
RM200,001 - RM250,000	1	1
Non-executive directors:		
RM1 - RM50,000	6	5

9. INCOME TAX (BENEFIT)/EXPENSE

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Current income tax:				
Malaysian income tax	-	11,751	-	11,751
Over provision in prior years	(12,908)	-	(11,751)	-
	(12,908)	11,751	(11,751)	11,751

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to loss before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2010 RM	2009 RM
Group		
Loss before tax	(3,809,656)	(4,968,265)
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	(952,414)	(1,242,066)
Effect of expenses not deductible for tax purposes	126,030	165,078
Effect of income not subject to tax	(103,041)	-
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	(23,015)	-
Deferred tax assets not recognised in respect of current year tax losses and unabsorbed capital allowances	952,440	1,088,739
Over provision of tax expense in prior years	(12,908)	-
Income tax (benefit)/expense for the year	(12,908)	11,751
Company		
Loss before tax	(3,724,954)	(4,607,713)
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	(931,239)	(1,151,928)
Effect of expenses not deductible for tax purposes	81,867	90,805
Income not subject to tax	(103,041)	-
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	952,413	1,072,874
Over provision of tax expense in prior years	(11,751)	-
Income tax (benefit)/expense for the year	(11,751)	11,751

10. Loss per share

(a) Basic

Basic loss per share is calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year held by the Company.

	2010	2009
Net loss for the year (RM)	(3,796,748)	(4,980,016)
Weighted average number of ordinary shares in issue (unit)	45,053,000	45,053,000
Basic loss per share (sen)	(8.43)	(11.05)

(b) Diluted

Diluted loss per share is not presented as the Company has no potential ordinary shares as at balance sheet date.

Fully diluted loss per share has not been presented as the effect is anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land RM	Buildings, Factory and Civil Works RM	Plant and Machinery RM	Equipment and Fixtures RM	Motor Vehicles RM	Building Under Construction RM	Total RM
GROUP							
At 31 March 2010							
Cost							
At 1 April 2009	11,700	10,847,294	37,212,444	5,241,949	9,476,943	18,900	62,809,230
Additions	-	541,446	-	71,418	52,000	95,323	760,187
Disposals	-	-	-	-	(751,874)	-	(751,874)
Write off	-	-	-	(154,440)	-	-	(154,440)
Reclassifications	-	40,323	-	73,900	-	(114,223)	-
At 31 March 2010	11,700	11,429,063	37,212,444	5,232,827	8,777,069	-	62,663,103
Accumulated Depreciation							
At 1 April 2009	-	4,640,708	23,869,455	3,823,870	5,742,660	-	38,076,693
Charge for the year	-	276,254	283,272	290,643	142,416	-	992,585
Disposals	-	-	-	-	(619,351)	-	(619,351)
Write off	-	-	-	(110,954)	-	-	(110,954)
At 31 March 2010	-	4,916,962	24,152,727	4,003,559	5,265,725	-	38,338,973
Net carrying amount							
At 31 March 2010	11,700	6,512,101	13,059,717	1,229,268	3,511,344	-	24,324,130

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Freehold Land RM	Buildings, Factory and Civil Works RM	Plant and Machinery RM	Equipment and Fixtures RM	Motor Vehicles RM	Building Under Construction RM	Total RM
GROUP (Cont'd.)							
At 31 March 2009							
Cost							
At 1 April 2008	11,700	10,603,628	37,003,866	5,047,487	9,328,681	-	61,995,362
Additions	-	274,000	97,400	220,677	885,805	130,078	1,607,960
Disposals	-	-	-	-	(652,543)	-	(652,543)
Write off	-	(30,334)	-	(26,215)	(85,000)	-	(141,549)
Reclassification	-	-	111,178	-	-	(111,178)	-
At 31 March 2009	11,700	10,847,294	37,212,444	5,241,949	9,476,943	18,900	62,809,230
Accumulated Depreciation							
At 1 April 2008	-	4,391,359	23,500,136	3,561,256	6,313,321	-	37,766,072
Charge for the year	-	273,103	369,319	287,925	141,537	-	1,071,884
Disposals	-	-	-	-	(627,198)	-	(627,198)
Write off	-	(23,754)	-	(25,311)	(85,000)	-	(134,065)
At 31 March 2009	-	4,640,708	23,869,455	3,823,870	5,742,660	-	38,076,693
Net carrying amount							
At 31 March 2009	11,700	6,206,586	13,342,989	1,418,079	3,734,283	18,900	24,732,537
COMPANY							
At 31 March 2010							
Cost							
At 1 April 2009	11,700	10,777,490	36,937,295	4,770,472	7,275,309	18,900	59,791,166
Additions	-	541,446	-	71,418	52,000	95,323	760,187
Disposals	-	-	-	-	(751,874)	-	(751,874)
Write off	-	-	-	(154,440)	-	-	(154,440)
Reclassifications	-	40,323	-	73,900	-	(114,223)	-
At 31 March 2010	11,700	11,359,259	36,937,295	4,761,350	6,575,435	-	59,645,039
Accumulated Depreciation							
At 1 April 2009	-	4,570,904	23,605,899	3,607,328	3,541,026	-	35,325,157
Charge for the year	-	276,254	283,272	246,864	142,416	-	948,806
Disposals	-	-	-	-	(619,351)	-	(619,351)
Write off	-	-	-	(110,954)	-	-	(110,954)
At 31 March 2010	-	4,847,158	23,889,171	3,743,238	3,064,091	-	35,543,658
Net carrying amount							
At 31 March 2010	11,700	6,512,101	13,048,124	1,018,112	3,511,344	-	24,101,381

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Freehold Land RM	Buildings, Factory and Civil Works RM	Plant and Machinery RM	Equipment and Fixtures RM	Motor Vehicles RM	Building Under Construction RM	Total RM
COMPANY (Cont'd.)							
At 31 March 2009							
Cost							
At 1 April 2008	11,700	10,483,999	36,666,442	4,522,447	7,042,047	-	58,726,635
Additions	-	293,491	159,675	248,025	885,805	130,078	1,717,074
Disposals	-	-	-	-	(652,543)	-	(652,543)
Reclassification	-	-	111,178	-	-	(111,178)	-
At 31 March 2009	11,700	10,777,490	36,937,295	4,770,472	7,275,309	18,900	59,791,166
Accumulated Depreciation							
At 1 April 2008	-	4,303,785	23,253,449	3,366,817	4,026,687	-	34,950,738
Charge for the year	-	267,119	352,450	240,511	141,537	-	1,001,617
Disposals	-	-	-	-	(627,198)	-	(627,198)
At 31 March 2009	-	4,570,904	23,605,899	3,607,328	3,541,026	-	35,325,157
Net carrying amount							
At 31 March 2009	11,700	6,206,586	13,331,396	1,163,144	3,734,283	18,900	24,466,009

(a) 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 year-end is as follows:

	Group and Company 2010 RM	2009 RM
Not later than 1 year	277,916	384,710
Later than 1 year and not later than 5 years	1,069,372	1,304,569
Later than 5 years	4,473,576	4,751,993
	5,820,864	6,441,272

(b) During the financial year, the Group and the Company acquired property, plant and equipment at aggregate costs of RM760,187 (2009: RM1,607,960) and RM760,187 (2009: RM1,717,074) respectively of which RM Nil (2009: RM764,000) and RM Nil (2009: RM764,000) respectively were acquired by means of hire purchase arrangements. Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Group and Company	
	2010 RM	2009 RM
Motor vehicles	2,844,639	3,124,453
Plant and machinery	77,481	80,095
Equipment and fixtures	53,958	73,458
	2,976,078	3,278,006

(c) The net carrying amounts of property, plant and equipment pledged as securities for borrowings (Note 19) are as follows:

	Group and Company	
	2010 RM	2009 RM
Buildings	1,396,483	834,943

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RM	2009 RM
Unquoted shares at cost	1,911,006	1,911,006
Less: Accumulated impairment losses	(1,910,998)	(1,910,998)
	8	8

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Equity Interest Held (%) 2010	Equity Interest Held (%) 2009	Principal activities
KFM Transport Sdn. Bhd.	Malaysia	100	100	Ceased operations
KFM Marketing Sdn. Bhd.	Malaysia	95	95	Ceased operations
KFM Ventures Sdn. Bhd.	Malaysia	100	100	Dormant
KFM Trading Sdn. Bhd.	Malaysia	100	100	Dormant
KFM Biotechnology Sdn. Bhd.	Malaysia	100	100	Dormant
KFM Industries Sdn. Bhd.	Malaysia	100	100	Dormant
KFM-Bunge Flour Mixes Sdn. Bhd.*	Malaysia	60	60	Dormant

* The registers which are required to be kept by the company under the Companies Act, 1965 have not been properly updated. In relation to this, the directors have initiated the process to wind up this company.

13. OTHER INVESTMENTS

	Group and Company	
	2010	2009
	RM	RM
Unquoted shares, at cost	1,735,500	1,735,500

14. 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	
	2010	2009	2010	2009
	RM	RM	RM	RM
Unused tax losses	23,346,016	18,476,088	16,313,532	11,429,758
Unabsorbed capital allowances	1,913,807	1,935,983	-	-
Unutilised reinvestment allowances	9,972,944	9,972,944	9,972,944	9,972,944
	35,232,767	30,385,015	26,286,476	21,402,702

The unused tax losses, unabsorbed capital allowances and unutilised reinvestment allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

15. INVENTORIES

	Group and Company	
	2010	2009
	RM	RM
Cost		
Raw materials	3,010,057	3,629,649
Finished goods	1,594,214	1,604,548
Work-in-progress	269,485	460,422
	4,873,756	5,694,619
Net realisable value		
Consumables	1,233,436	1,247,511
	6,107,192	6,942,130

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Trade receivables				
Third parties	12,099,899	19,645,821	10,680,949	17,388,627
Subsidiaries	-	-	-	5,100,807
	12,099,899	19,645,821	10,680,949	22,489,434
Less:				
Provision for doubtful debts				
Third parties	(1,700,843)	(3,757,216)	(284,005)	(1,516,639)
Subsidiaries	-	-	-	(5,100,807)
	(1,700,843)	(3,757,216)	(284,005)	(6,617,446)
	10,399,056	15,888,605	10,396,944	15,871,988
Other receivables				
Deposits	3,453,390	4,275,924	3,441,090	4,244,773
Prepayments	260,718	282,727	260,718	282,727
Tax recoverable	22,528	34,771	22,528	1,057
Other receivables	524,212	3,875,340	524,212	515,340
Amount due from subsidiaries	-	-	-	3,127,526
	4,260,848	8,468,762	4,248,548	8,171,423
Less:				
Provision for doubtful debts				
Third parties	(500,000)	(3,859,999)	(500,000)	(500,000)
Subsidiaries	-	-	-	(3,127,526)
	(500,000)	(3,859,999)	(500,000)	(3,627,526)
	3,760,848	4,608,763	3,748,548	4,543,897
	14,159,904	20,497,368	14,145,492	20,415,885

(a) Credit risk

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. Trade receivables are non-interest bearing.

16. TRADE AND OTHER RECEIVABLES (CONT'D.)

(b) Amount due from subsidiaries

The amount due from subsidiaries is non-interest bearing and is repayable on demand. This amount is unsecured and is to be settled in cash. During the financial year, the Company has written off all of the amounts due from its subsidiaries.

Other information on financial risks of the other receivables are disclosed in Note 25.

17. MARKETABLE SECURITIES

	Group and Company	
	2010 RM	2009 RM
Shares quoted in Malaysia, at cost	16,677	16,677
Market value of quoted shares	11,184	11,500

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Cash in hand and at banks	945,684	1,453,642	924,635	1,428,408
Deposits with licensed banks	726,298	702,969	726,298	702,969
Cash and bank balances	1,671,982	2,156,611	1,650,933	2,131,377
Bank overdraft (Note 19)	-	(18,150)	-	-
Cash and cash equivalents	1,671,982	2,138,461	1,650,933	2,131,377

Deposits with licensed banks of the Group and of the Company amounting to RM726,298 (2009: RM702,969) are pledged as securities for bank guarantees.

Other information on financial risks of cash and cash equivalents are disclosed in Note 25.

19. BORROWINGS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Short term borrowings				
Secured:				
Bank overdraft	-	18,150	-	-
Hire purchase liabilities (Note 20)	647,176	761,794	647,176	761,794
Term loans	5,988,503	4,398,193	5,988,503	4,398,193
	6,635,679	5,178,137	6,635,679	5,159,987
Long term borrowings				
Secured:				
Hire purchase liabilities (Note 20)	399,270	985,192	399,270	985,192
Term loans	3,857,963	8,562,420	3,857,963	8,562,420
	4,257,233	9,547,612	4,257,233	9,547,612
Total borrowings				
Bank overdraft (Note 18)	-	18,150	-	-
Hire purchase liabilities (Note 20)	1,046,446	1,746,986	1,046,446	1,746,986
Term loans	9,846,466	12,960,613	9,846,466	12,960,613
	10,892,912	14,725,749	10,892,912	14,707,599
Maturity of borrowings:				
(excluding hire purchase liabilities):				
Within one year	5,988,503	4,416,343	5,988,503	4,398,193
More than 1 year and less than 2 years	2,770,880	4,835,792	2,770,880	4,835,792
More than 2 years and less than 5 years	504,083	3,277,115	504,083	3,277,115
More than 5 years	583,000	449,513	583,000	449,513
	9,846,466	12,978,763	9,846,466	12,960,613

The bank overdraft of the Group was secured by corporate guarantee of the Company.

The term loans of the Group and the Company are secured by the following:

(a) a negative pledge on the assets of the Company;
(b) a registered debenture incorporating a fixed and floating charge of RM7,000,000 over all assets of the Company, both present and future;
(c) facility agreement amounting to RM8,567,200;
(d) deed of assignments of all rights, titles and interest of the shoplots. First legal charge are to be executed once the individual titles are out.

Other information on financial risks of borrowings are disclosed in Note 25

20. HIRE PURCHASE LIABILITIES

	Group and Company	
	2010	2009
	RM	RM
Future minimum payments:		
Not later than 1 year	695,493	844,466
Later than 1 year and not later than 2 years	288,831	634,936
Later than 2 years and not later than 5 years	127,773	424,694
	1,112,097	1,904,096
Less: Future finance charges	(65,651)	(157,110)
Present value of hire purchase liabilities	1,046,446	1,746,986
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	647,176	761,794
Later than 1 year and not later than 2 years	275,440	589,874
Later than 2 years and not later than 5 years	123,830	395,318
	1,046,446	1,746,986
Due within 12 months (Note 19)	647,176	761,794
Due after 12 months (Note 19)	399,270	985,192
	1,046,446	1,746,986

Other information on financial risks of hire purchase liabilities are disclosed in Note 25.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Trade payables				
Third parties	10,624,205	8,604,910	10,605,686	8,584,266
Other payables				
Accruals	953,743	859,896	953,743	846,310
Other payables	2,515,092	2,618,098	2,505,294	2,610,671
Provision for onerous contract	-	2,445,989	-	2,445,989
	3,468,835	5,923,983	3,459,037	5,902,970
	14,093,040	14,528,893	14,064,723	14,487,236

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days.

Other information on financial risks of other payables are disclosed in Note 25.

22. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of RM1 each		Amount	
	2010	2009	2010 RM	2009 RM
Authorised				
At 1 April/31 March	50,000,000	50,000,000	50,000,000	50,000,000
Issued and fully paid				
At 1 April/31 March	45,053,000	45,053,000	45,053,000	45,053,000

	Group and Company	
	2010 RM	2009 RM
Share premium	6,446,933	6,446,933

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

23. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transaction with a subsidiary during the financial year:

	2010 RM	2009 RM
Transfer of property, plant and equipment	-	109,114

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follow:

	Group and Company	
	2010 RM	2009 RM
Short-term employee benefits	1,270,490	1,373,670
Post-employment benefits:		
Defined contribution plan	161,880	175,157
	1,432,370	1,548,827

Included in the total key management personnel are:

	Group and Company	
	2010 RM	2009 RM
Directors' remuneration (Note 8)	641,470	701,689

24.. CONTINGENT LIABILITIES

(i) Corporate guarantee

	Group and Company	
	2010	2009
	RM	RM
Corporate guarantee given to a bank for credit facility granted to a subsidiary	-	18,150

(ii) Litigation case

A customer, Sidney Marketing Sdn. Bhd. has initiated legal action against a subsidiary of the Company. The plaintiff has made a claim of RM1,000,000 for a breach of a purported agreement to set-up a joint venture business. The court has fixed the matter for case management on 2 August 2010. The directors, upon legal advice, are of the opinion that the claim would not succeed and any decision made would be in favour of the Group.

25. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risk, foreign currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

(b) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. The investments in financial assets are mainly short term in nature and have been mostly placed in fixed deposits or marketable securities.

The following tables set out the carrying amounts, the weighted average effective interest rates (WAEIR) as at the balance sheet date and the remaining maturities of the Group's and Company's financial instruments that are exposed to interest rate risk:

25. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Interest Rate Risk (Cont'd.)

	Note	WAEIR %	Within 1 Year RM	1-2 Years RM	2-5 Years RM	More Than 5 Years RM	Total RM
At 31 March 2010							
Group							
Fixed rate							
Hire purchase liabilities	20	5.65	(647,176)	(275,440)	(123,830)	-	(1,046,446)
Floating rate							
Term loans	19	8.01	(5,988,503)	(2,770,880)	(504,083)	(583,000)	(9,846,466)
Cash and bank balances	18	3.47	1,671,982	-	-	-	1,671,982
Company							
Fixed rate							
Hire purchase liabilities	20	5.65	(647,176)	(275,440)	(123,830)	-	(1,046,446)
Floating rate							
Term loans	19	8.01	(5,988,503)	(2,770,880)	(504,083)	(583,000)	(9,846,466)
Cash and bank balances	18	3.47	1,650,933	-	-	-	1,650,933
At 31 March 2009							
Group							
Fixed rate							
Hire purchase liabilities	20	5.65	(761,794)	(589,874)	(395,318)	-	(1,746,986)
Floating rate							
Term loans	19	8.68	(4,398,193)	(4,835,792)	(3,277,115)	(449,513)	(12,960,613)
Cash and bank balances	18	3.47	2,156,611	-	-	-	2,156,611
Bank overdraft	19	8.75	(18,150)	-	-	-	(18,150)
Company							
Fixed rate							
Hire purchase liabilities	20	5.65	(761,794)	(589,874)	(395,318)	-	(1,746,986)
Floating rate							
Term loans	19	8.68	(4,398,193)	(4,835,792)	(3,277,115)	(449,513)	(12,960,613)
Cash and bank balances	18	3.47	2,131,377	-	-	-	2,131,377

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months except for term loans which are repriced annually. Interest on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Group and of the Company that are not included in the above tables are not subject to interest rate risks.

(c) Foreign currency risk

The Group operates internationally and is exposed to Singapore Dollars and United States Dollars. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

25. FINANCIAL INSTRUMENTS (CONT'D.)

(c) Foreign currency risk (Cont'd.)

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

(d) Liquidity risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains 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.

(e) Credit risk

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the 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. However, the Group is still exposed to doubtful debts as a result of default in payments by certain debtors. Tighter credit control procedures are being implemented to minimise such exposure. The Group does not offer credit terms without specific approval. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, marketable securities and non-current investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial assets.

(f) Fair values

The carrying amounts of financial assets and liabilities of the Group and of the Company at the balance sheet date approximated their fair values except for the following:

		Group		Company	
	Note	**Carrying amount RM**	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
Financial assets					
At 31 March 2010:					
Non-current unquoted shares	13	1,735,500	*	1,735,500	*
Marketable securities	17	16,677	11,184	16,677	11,184
At 31 March 2009:					
Non-current unquoted shares	13	1,735,500	*	1,735,500	*
Marketable securities	17	16,677	11,500	16,677	11,500

25. FINANCIAL INSTRUMENTS (CONT'D.)

(f) Fair values (Cont'd.)

	Note	Group Carrying amount RM	Group Fair value RM	Company Carrying amount RM	Company Fair value RM
Financial liabilities					
At 31 March 2010:					
Term loans	19	9,846,466	8,676,549	9,846,466	8,676,549
Hire purchase liabilities	20	1,046,446	1,035,910	1,046,446	1,035,910
At 31 March 2009:					
Term loans	19	12,960,613	11,049,044	12,960,613	11,049,044
Hire purchase liabilities	20	1,746,986	1,723,499	1,746,986	1,723,499

* It is not practical to estimate the fair values of the Group's and Company's non-current unquoted shares because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

The methods and assumptions used by the management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values are as follows:

(i) Marketable Securities
The fair value of quoted shares is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

(ii) Borrowings
The fair value of borrowings is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

26. SEGMENT INFORMATION

No segmental analysis by geographical location or by business segment had been prepared as the operations are principally flour milling and are carried out within Malaysia. The other activities are insignificant to the Group.

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Authorised Share Capital	:	RM50,000,000 of 50,000,000 ordinary shares of RM1.00 each
Issued and fully paid	:	RM45,053,000 comprising 45,053,000 ordinary shares of RM1.00 each
Class of share	:	Ordinary shares of RM1.00 each
Voting Rights		
- On show of hands	:	1 vote
- On a poll	:	1 vote for each share held

	No. of Shares			
Name of Substantial Shareholder	**Direct Interest**	**%**	**Deemed Interest**	**%**
HSBC NOMINEES (ASING) SDN BHD BENEFICIARY: COOK OVERSEAS INVESTMENTS LTD	4,116,700	9.14	-	-

	No. Of Holders		No. Of Shares		%	
Size Of Holdings	**Malaysian**	**Foreign**	**Malaysian**	**Foreign**	**Malaysian**	**Foreign**
Less Than 100	85	0	1,765	0	0.00	0.00
100 - 1000	1,343	13	1,292,524	11,171	2.87	0.02
1001 - 10000	2,172	37	8,659,215	181,099	19.22	0.40
10001 - 100000	381	16	10,321,226	474,700	22.92	1.06
100001 and below 5%	35	3	16,171,500	3,813,100	5.89	8.46
5% and above	0	1	0	4,116,700	0.00	9.14
Directors	1	0	10,000	0	0.02	0.00
	4,017	70	36,456,230	8,596,770	80.92	19.08

DIRECTOR'S INTEREST IN THE COMPANY AND ITS RELATED CORPORATIONS

The Company – Kuantan Flour Mills Berhad

	No. of Shares			
	Direct Interest	**%**	**Deemed Interest**	**%**
Tan Sri Mohamed Bin Ngah Said	-	-	-	-
Lee Chee Kiean	10,000	0.02	3,000	-
Leong Chen Nyen	-	-	-	-
Ng Kay Eng	-	-	-	-
Kushairi Bin Zaidel	-	-	-	-

All the Directors, by virtue of their interests in the shares of the Company, are also deemed to have interests in the shares of the Company's subsidiaries to the extent that the Company has an interest

Statistics On Shareholdings

as at 12 August 2010

THIRTY LARGEST SHAREHOLDERS

No.	Name	No. Of Shares	%
1	HSBC NOMINEES (ASING) SDN BHD (COOK OVERSEAS INVESTMENTS LTD)	4,116,700	9.14
2	AMSEC NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES FOR TAN BOON KIAT)	2,193,400	4.87
3	DB (MALAYSIA) NOMINEE (ASING) SDN BHD (EXEMPT AN FOR DEUTSCHE BANK AG SINGAPORE (PWM ASING))	1,912,000	4.24
4	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR SOH KEY CHAI (SFC))	1,804,300	4.00
5	F.I.T NOMINEES (ASING) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR NUEVIZ INVESTMENT PRIVATE LIMITED (MG0031-199))	1,563,200	3.47
6	M.I.T NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR LEE CHAI HUAT (MG0019-199))	1,504,700	3.34
7	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR NEO KIM HOCK (SFC))	1,189,200	2.64
8	F.I.T NOMINEES (ASING) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR G1 INVESTMENTS PTE LTD (MG0129-199))	1,049,900	2.33
9	SOH HAN CHUEN	1,041,400	2.31
10	KWONG AH NGAW @ KWONG YING SIEW	831,900	1.85
11	LEE FONG KUAN	600,000	1.33
12	WONG SIEW FAI	536,000	1.19
13	KWONG YOU LAM	465,200	1.03
14	CHIK KIN YEUN	411,900	0.91
15	TAN SWEE KUANG	400,000	0.89

THIRTY LARGEST SHAREHOLDERS (CONT'D.)

No.	Name	No. Of Shares	%
16	GAN LAM SEONG	364,000	0.81
17	LOH KUWEI LAM	362,500	0.80
18	HSBC NOMINEES (ASING) SDN BHD (EXEMPT AN FOR BNP PARIBAS WEALTH MANAGEMENT SINGAPORE BRANCH (FOREIGN))	337,900	0.75
19	TA NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR LOH YIM QUIN)	295,000	0.65
20	SHER KOK CHYE	250,000	0.55
21	TAN CHEE HWA	227,600	0.51
22	TA NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR TEE KIM HEW)	225,400	0.50
23	KWONG YEW NAM	214,800	0.48
24	OSK NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR CHONG LEE FONG)	200,000	0.44
25	ROHAYA BINTI HASHIM	190,000	0.42
26	TAN CHEN YAN	185,900	0.41
27	TOI AJ LEK	185,000	0.41
28	PUBLIC NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR TEE KIM YEW (E-KLG/BTG))	168,200	0.37
29	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR TAN CHIN CHAN (AT0068))	132,600	0.29
30	RHB NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR IDRIS BIN ABDULLAH @ DAS MURTHY)	126,000	0.28
		22,730,000	50.42

List Of Properties Held By The Group

AS AT 31 MARCH 2010

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

Location	Tenure	Date of Revaluation/ Date of Acquisition	Area	Description	Age of Building	Net Book Value 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-Sep-85	25,425 sq. metres	Office and Factory	24 years and 17 years	1,601 2,434
Pajakan Negeri 550 Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	21 year lease expiring on 31 December 2011 with option to renew for a further 21 years	27-Feb-91	22,589 sq. metres	Vacant land held for future development	n/a	n/a
HS(M) 13839 Lot. No. 23617 Mukim Kuala Kuantan, Kuantan, Pahang	Freehold	14-Dec-90	446 sq. metres	Double storey detached house	19 years	67
HS(D) 116996-116997, Lot No. PT No. 24900 -24901, Mukim of Petaling, District of Petaling, Selangor Darul Ehsan	99 years leasehold expiring 21 February 2093	23-Apr-07	2,625 sq. feet	1 unit 1 1/2 storey terraced factory	5 years	412
HS(D) 116996-116997, Lot No. PT No. 24900 -24901, Mukim of Petaling, District of Petaling, Selangor Darul Ehsan	99 years leasehold expiring 21 February 2093	26-Jul-07	2,625 sq. feet	1 unit 1 1/2 storey terraced factory	5 years	405
HS(D) 191512, Lot No. 61067, Mukim Plentong, District of Johor Bahru, Johor.	Freehold	31-Jul-09	446 sq. metres	1 unit 1 1/2 storey terrace factory	18 years	578

Notice Of Twenty Sixth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty Sixth Annual General Meeting of the Company will be held at the M.S. Garden Hotel, Meeting Room 5 & 6 (Mezzanine Floor), Lot 5 & 10, Lorong Gambut, Off Jalan Beserah, 25300 Kuantan, Pahang Darul Makmur on Wednesday, 29 September, 2010 at 3.00 p.m. for the following purposes: -

AGENDA

1. To receive the Audited Financial Statements for the year ended 31 March 2010 together with the Reports of the Directors and Auditors thereon. **(Resolution 1)**
2. To approve the payment of Directors' fees for the financial year ended 31 March 2010. **(Resolution 2)**
3. To re-elect as Director, Mr. Leong Chen Nyen, who retires by rotation in accordance with Article 63 of the Company's Articles of Association and, being eligible, offers himself for re-election. **(Resolution 3)**
4. To re-elect as Director, Mr. Ng Kay Eng, who retires in accordance with Article 68 of the Company's Articles of Association and, being eligible, offers himself for re-election. **(Resolution 4)**
5. To pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965: - **(Resolution 5)**
   - "That Tan Sri Mohamed Bin Ngah Said, who is retiring pursuant to Section 129(2) of the Companies Act, 1965 be and is hereby re-appointed as Director of the Company and to hold office until the conclusion of the next Annual General Meeting."
6. To re-appoint Messrs. Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

   As Special Business :
   To consider and, if thought fit, to pass the following Ordinary Resolution: -

7. **Authority to allot and issue shares pursuant to Section 132D of the Companies Act, 1965** **(Resolution 7)**
   "That pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

8. To transact any other business of which due notice shall have been given in accordance with the Company's Articles of Association. **(Resolution 8)**

BY ORDER OF THE BOARD,

Tan Yoke May
(MACS 01531)
Company Secretary

Kuala Lumpur
3rd September 2010

Notice Of Twenty Sixth Annual General Meeting

Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

2. A member shall not be entitled to appoint more than two (2) proxies to attend and vote instead of the member. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.

3. Where a member 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.

4. The instrument appointing a proxy in the case of an individual shall be signed by the appointer or by his attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, all holders must sign the Proxy Form.

5. The instrument appointing a proxy must be deposited at the registered office of the Company at Kawasan Lembaga Pelabuhan Kuantan, KM25, Jalan Kuantan/Kemaman, Tanjung Gelang, 25740 Kuantan, Pahang not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof.

Explanatory Notes on Special Business

6. Ordinary Resolution No. 7, if passed, will give the Directors of the Company, from the date of the Annual General Meeting, authority to allot and issue ordinary shares from the un-issued share capital of the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being as and when business opportunities arise which the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting.

   Statement Accompanying the Notice of Annual General Meeting
   Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

   Name of Director who is standing for Re-election pursuant to Article 63:
   - Mr. Leong Chen Nyen

   Name of Director who is standing for Re-election pursuant to Article 68:
   - Mr. Ng Kay Eng

   Name of Director who is standing for Re-appointment pursuant to Section 129 of Companies Act, 1965:
   - Tan Sri Mohamed Bin Ngah Said

   The details of the Directors who are standing for re-election /re-appointment are set out in the Directors' Profile on Page 14 to 15 and their securities holdings in the Company are set out in the Statistics on Shareholdings on Page 57 of this Annual Report.

KUANTAN FLOUR MILLS BERHAD
Company No. 119598-P
(Incorporated in Malaysia)

PROXY FORM

I/We, ____

of ____

Being a member/members of **KUANTAN FLOUR MILLS BERHAD** (Company No. 119598-P)

hereby appoint ____

of ____

or failing him/her ____

of ____

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Twenty Sixth Annual General Meeting of the Company to be held on Wednesday, 29 September 2010 and at any adjournment thereof. My/Our proxy is to vote as indicated below: -

	RESOLUTIONS	FOR	AGAINST
1.	To receive the Audited Financial Statements for the year ended 31 March 2010 together with the Reports of the Directors and Auditors thereon.		
2.	Approval of Directors' fees for the year ended 31st March 2010		
3.	Re-election of Director, Mr. Leong Chen Nyen		
4.	Re-election of Director, Mr. Ng Kay Eng		
5.	Re-appointment of Director, Tan Sri Mohamed bin Ngah Said		
6.	Re-appointment of Messrs. Ernst & Young as Auditors and Authorize the Directors to fix their remuneration		
	Special Business		
7.	Authorise the Directors to issue shares pursuant to Section 132D of the Companies Act, 1965		

(Please indicate with an "X" in the appropriate box against the resolutions on how you wish your proxy to vote. If no instruction is given, this form will be taken to authorise the proxy to vote at his/her discretion.)

The proportion of my/our holding to be represented by my/our proxy/proxies is as follows: -

First Named Proxy		%
Second Named Proxy		%
	100	%

In case of a vote taken by show of hands, the first proxy shall vote on my/our behalf.

Signed this____________ Day of ______________ , 2010.

No. of shares held :	

____
Signature of Shareholder or Common Seal

Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
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4. The instrument appointing a proxy in the case of an individual shall be signed by the appointer or by his attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, all holders must sign the Proxy Form.
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Affix
stamp
here

The Company Secretary
Kuantan Flour Mills Berhad (119598-P)
Kawasan Lembaga Pelabuhan Kuantan
KM 25, Jalan Kuantan/Kemaman
Tanjung Gelang
25740 Kuantan
Pahang

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