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KUANTAN FLOUR MILLS BERHAD
(119598-P)

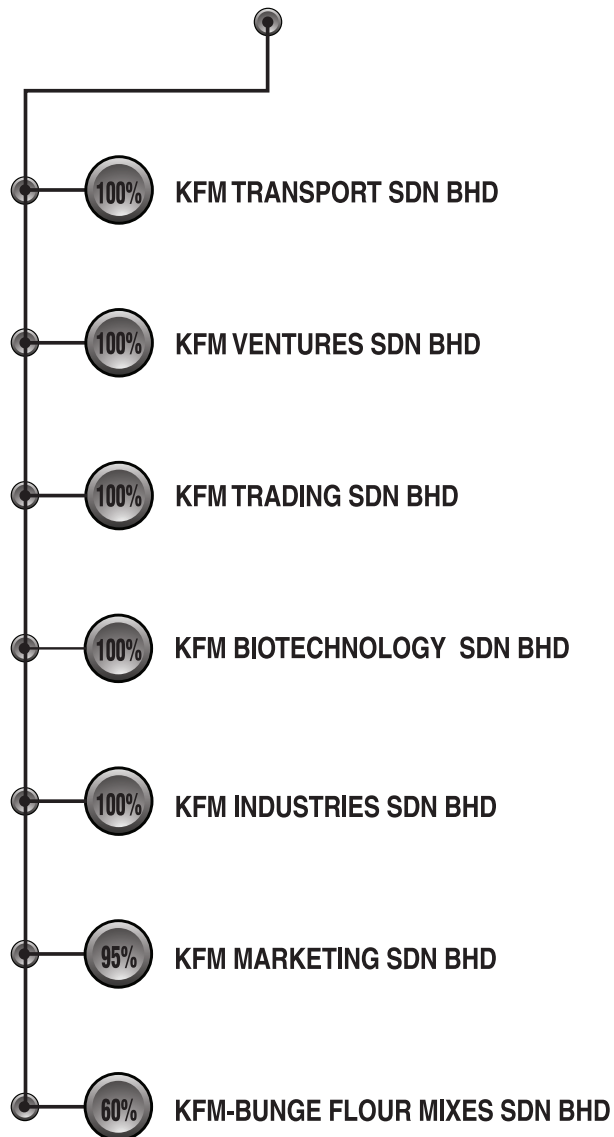
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corporate structure



KUANTAN FLOUR MILLS BERHAD
(119598-P)

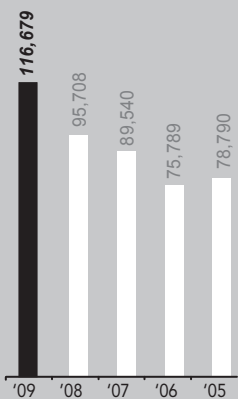


group financial highlights

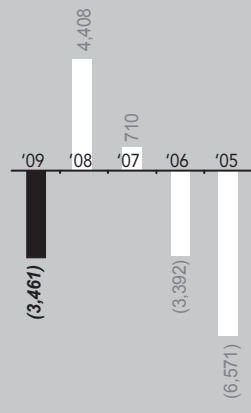
GROUP FINANCIAL HIGHLIGHTS

Group	2009 '000	2008 '000	2007 '000	2006 '000	2005 '000
Revenue	116,679	95,708	89,540	75,789	78,790
Operating (loss) / profit	(3,461)	4,408	710	(3,392)	(6,571)
(Loss) / Profit before tax	(4,968)	2,265	(759)	(4,324)	(7,464)
(Loss) / Profit after tax and minority interests	(4,980)	2,255	(1,259)	(4,145)	(7,564)
Shareholders' funds	26,826	31,806	29,551	30,810	34,955
Net tangible assets	26,826	31,806	29,551	30,810	34,955
Tangible assets	56,081	58,750	60,108	64,662	58,728
Basic earnings per share (sen)	(11.05)	5.01	(2.80)	(9.20)	(16.79)

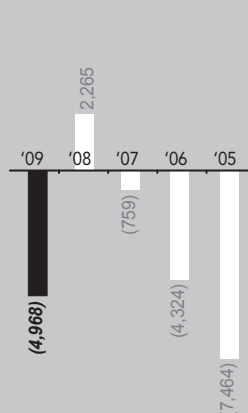
Revenue ('000)



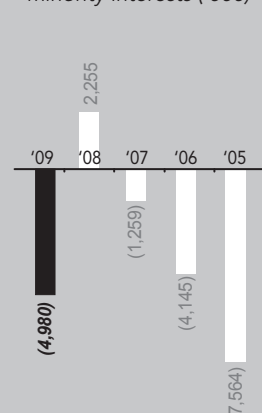
Operating (loss)/profit ('000)



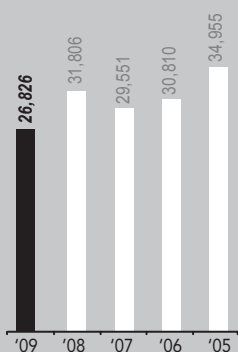
(Loss)/Profit before tax ('000)



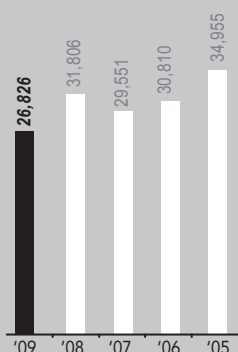
(Loss)/Profit after tax and minority interests ('000)



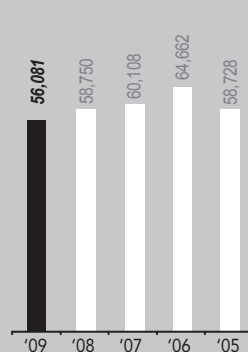
Shareholders' funds ('000)



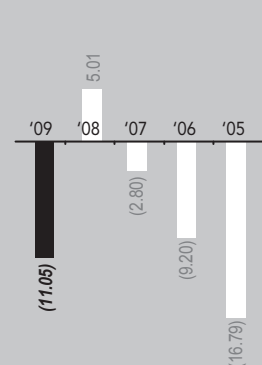
Net tangible assets ('000)



Tangible assets ('000)



Basic earnings per share (sen)



corporate information

Board of Directors

Dato' Setia Abdul Halim Bin Dato' Haji Abdul Rauf (Non Independent, Non-Executive Chairman)

Tan Sri Mohamed Bin Ngah Said
(Non Independent, Executive Deputy Chairman)

Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP
(Non Independent, Executive Director)
(Alternate: Heng Teck Boun)

Lee Chee Kian
(Non Independent, Executive Director)

Dato' Jeyaraj a/l V. Ratnaswamy
(Independent, Non-Executive Director)

Ng Kay Eng
(Independent, Non-Executive Director)

Leong Chen Nyen
(Independent, Non-Executive Director)

Kushairi Bin Zaidel
(Independent, Non-Executive Director)
(Appointed on 06 January 2009)

Audit Committee

Dato' Jeyaraj a/l V. Ratnaswamy
(Chairman, Independent, Non-Executive Director)

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

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

Company Secretary

Tan Yoke May (LS 0004299)
Inuri Management Sdn Bhd
177-3, Floor 3, Jalan Sarjana
Taman Connaught, Cheras
56000 Kuala Lumpur
Tel No: 03-91304794
Fax No: 03-91329692

Stock Exchange Listing

Bursa Malaysia Securities Berhad
Main Market
Code : 8303

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

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

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 31 March 2009.

FINANCIAL REVIEW

For the financial year ended 31 March 2009, the Group registered a loss of RM 4.98 million as against a profit of RM 2.25 million for the previous financial year despite achieving a higher revenue of RM 116.68 million as compared to RM 95.71 million for the previous year. This was mainly due to the provision for onerous contracts of RM2.45 million made for purchase of wheat prior to the global economy crisis. The Group's performance was also compounded by the intense competition within the industry which resulted in the prices of non-general purpose flour dropping since August 2008 and which the Company had to endure while having to use raw material purchased previously at high price.

At the Company level we recorded a loss of RM 4.62 million compared to a loss of RM 0.402 million for the previous financial year mainly due to reasons mentioned above.

REVIEW OF THE INDUSTRY

The performance of the Group was encouraging during the first half of the year where profit was recorded. However, towards the second quarter of last year, the impact of global financial crisis was felt and this had inevitably affected the global commodities market. The world commodities market took a huge and sudden plunge in prices and in view of this, the flour millers in Malaysia took some desperate measures to expedite the usage of their wheat contracted at high price prior to the plunge. As a result of this, intense competition was generated within the flour milling industry which resulted in the plunge of selling prices of the non-controlled flour since the second quarter of the financial year under review and this has affected the Group's performance tremendously. In order to mitigate the situation and to face the challenges ahead, the Group is committed to put in more efforts to eliminate inefficiencies, reduce operating cost and to take extra precautions in mitigating the risk of having high doubtful debts.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Board acknowledges the importance of CSR, the framework of which has been launched by Bursa Malaysia on 5 September 2006.

During the financial year the company had made some contribution in kinds to several non profit bodies to be distributed to the less fortunate during the Hari Raya festive season and to the flood victims in Kuantan.

The Company also firmly believes that caring for its employees will contribute positively to the Company's long term profitability and success of the business. Trainings are being organized from time to time for employees of all levels. A family day was also held during the year for its employees. We are also firm believer 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

We anticipate that the world commodities prices will be more stable. However, the industry is expected to remain very competitive with additional mills having been built by other flour millers. We shall continue to improve our efficiency, productivity and to embark upon more intensive research and development in order to remain competitive and continue to be a reliable flour producer in the country.

Going ahead, despite facing a lot of uncertainties and challenges surrounding the local and global economy as mentioned above, we remain optimistic about the Group's future.

ACKNOWLEDGEMENT

The Board of Directors would like to express its deepest and sincere appreciation to the management and staff for their continuous dedication and worthy contributions. I also wish to extend 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 welcome our new director Encik Kushairi Bin Zaidel who brings onto the Board his vast experience and we look forward to his beneficial contributions to the Group.

Thank you.

Dato' Setia Abdul Halim bin Dato' Haji Abdul Rauf
Chairman

corporate governance statement

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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 Company. A brief profile of each Director is presented on pages 14 to 15 of this Annual Report.

BOARD BALANCE

The Board currently has eight (8) Directors, comprising three (3) Executives and five (5) 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 2009, 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	Attendance
Dato' Setia Abdul Halim bin Dato' Haji Abdul Rauf	5	4
Tan Sri Mohamed Bin Ngah Said	5	3
Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP (Alternate: Heng Teck Boun)	5	5
Lee Chee Kiean	5	5
Dato' Jeyaraj a/l V. Ratnaswamy	5	4
Ng Kay Eng	5	5
Leong Chen Nyen	5	4
Kushairi Bin Zaidel (Appointed on 06 January 2009)	1	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 has 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.

corporate governance statement

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. Directors newly appointed 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 Directors have attended the Mandatory Accreditation Programme prescribed by Bursa Malaysia Securities Berhad. The following Directors have also attended the Continuing Education Programmes conducted by various course leaders during the financial year under review. The training programmes, seminars and conferences attended include:

Director	Date of Training	Topic
Dato' Setia Abdul Halim Dato' Hj. Abdul Rauf	23 September 2008	Budget 2009, Tax Issues For The Corporate Sector
Lee Chee Kian	28 to 30 July 2008 27 February 2009	The Australian Grains Conference HR Management for Non HR Officer
Dato' Jeyaraj Ratnaswamy	2 December 2008 19 & 20 August 2008 8 September 2008 26 November 2008	MIT Seminar on Indirect Taxes National Tax Conference 2008 2009 Budget Seminar National Accountants Conference 2008
Leong Chen Nyen	6 May 2008 19 & 20 August 2008 30 August 2008	How To Survive Tax Audit and Investigation National Tax Conference 2008 2009 Budget Seminar
Kushairi Bin Zaidel	16 September 2008 11 December 2008	Understanding the Regulatory Environment in Singapore Guidebook for Audit Committees: Financial Reporting and External Audit

As for the Directors who did not attend formal training during the financial year under review due to unavailability of preferred and suitable topic, the Company has subsequent to the financial year end, made arrangements for those directors to participate in training programmes where relevant to enhance their knowledge and professionalism to effectively discharge their duties and responsibilities.

NOMINATION AND REMUNERATION COMMITTEES AND PROCEDURES

The Nomination and Remuneration Committees, sub-committees of the board, under their terms 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:

Dato' Jeyaraj a/l V. Ratnaswamy (Chairman)
Ng Kay Eng
Leong Chen Nyen

corporate governance statement

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 2009 are as follows :-

	Executive	Non-Executive	Total
Salary and other emoluments	480, 839	5, 250	486, 089
Pension costs – defined Contribution plans	57, 600	-	57, 600
Fees	-	158, 000	158, 000
	538, 439	163, 250	701, 689

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

	Executive	Non Executive
Below RM50, 000	-	5
RM50,001 to RM100,000	-	-
RM100,001 to RM150,000	1	-
RM150,001 to RM200,000	1	-
RM200,001 to RM250,000	1	-
	3	5

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 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 requirements 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 close and transparent relationship with its auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

corporate governance statement

FINANCIAL REPORTING

In presenting the annual financial statements and quarterly announcements to shareholders, the directors aim to present a balanced 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 of the 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 judgements 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 the financial position of the Group and of 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 of non-audit fees incurred and payable to the external auditors for the financial year ended 31 March 2009 was RM45, 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 Loan 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 2009.

The present members of the Audit Committee comprise: -

Dato' Jeyaraj a/l V. Ratnaswamy
(Chairman, Independent, Non-Executive Director)

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

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

MEETINGS

The Committee meets at least (4) times annually, or more frequently as circumstance 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	Attendance
Dato' Jeyaraj a/l V. Ratnaswamy	5	4
Ng Kay Eng	5	5
Leong Chen Nyen	5	4

SUMMARY OF ACTIVITIES

The Audit Committee carried out the following activities during the financial year ended 31 March 2009.

- a) Reviewed the internal audit reports presented and considered the findings of internal audit of 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 the external auditors were noted.

audit committee report

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 have 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/masters/doctorate in accounting or finance and at least 3 years post qualifying 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.
 - 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' reports 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.

audit committee report

TERMS OF REFERENCE (CONT'D.)

3) Duties (Cont'd.)

- 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, 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 and payable for the financial year ended was RM 62,500.00.

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.

statement of internal control

INTRODUCTION

The Malaysian Code of Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets. The Board is pleased to present this Statement on Internal Control which outlines the state, nature and scope of internal control of the Group during the year.

RESPONSIBILITY

The Directors acknowledge their responsibilities for the Group's system of internal control to safeguard shareholders' investments and the Group's assets.

The Board of Directors recognizes the importance of sound internal controls covering not only financial controls but also operational and compliance controls as well as risk management. The internal control system is designed to meet the Group's particular needs and to manage the principal risks to which it is exposed. It should be noted, however, that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives.

RISK MANAGEMENT FRAMEWORK AND INTERNAL AUDIT

The Board recognizes that the management of principal risks plays an important and integral part of the Group's daily operations and that the identification and the management of such risk will affect the achievement of the Group's objectives. The Executive Director reports to the Board on significant changes in the business. The Group's financial status performance and other key business indicators are also reported quarterly to the Board. The Board regularly evaluates findings and recommendations of senior management and considers and approves various measures and policies necessary to address various risks. The Board shall continue to be committed to further develop risk management process in line with various guidelines issued by relevant authorities. The risk management process would be an ongoing process with the aim of identifying, evaluating and managing the risks associated with all business entities within the Group.

The Board also recognizes the increasing importance of maintaining a sound system of internal control to safeguard the shareholders' investment and the Group's assets. The Internal Audit functions have been outsourced to an external independent firm of internal auditors. The Audit Committee will be responsible for reviewing and approving annual internal audit plans and resources to ensure that the internal auditors have the necessary resources to adequately perform their function.

SYSTEM OF INTERNAL CONTROL

The key elements of the Group's internal control system are –

- Clearly documented internal policies and procedures defining organizational responsibility and limits of authority.
- Review and approval of annual business plans and budgets by the Board.
- Regular review of performance of the Group by the Board.
- Management meetings held monthly to identify, discuss, evaluate and resolve operational and financial issues.
- Active participation by Executive Director in day-to-day running of the Group's operations.

The Statement of Internal Control is made in accordance with the resolution adopted by the Board of Directors at the meeting held on 20 August 2009.

board of directors

Dato' Setia Abdul Halim Bin Dato' Haji Abdul Rauf, is a Malaysian, aged 70, holds a Bachelor of Arts degree from the University of Malaya and Masters degree in Public and International Affairs from the University of Pittsburgh USA. Before joining the private sector, he held various positions in government. Amongst key positions he held were Director-General, Implementation Coordination Unit in the Prime Minister's Department, State Secretary of State Government of Selangor, Director-General of Immigration Department Malaysia, Deputy Director Bureau of Research and Consultancy, National Institute of Public Administration, Senior Deputy Director-General, Rubber Industry Smallholders Development Authority (RISDA). He has also vast experience in the management and strategic business planning. Dato' Setia Halim is the Executive Deputy Chairman of Hil Industries Berhad, A & M Realty Berhad and the Chairman of MIDF Consultancy and Corporate Service Sdn Bhd, Kontena Nasional Global Logistics Sdn Bhd and Golden Plus Holdings Berhad.

Dato' Setia Halim does not have any interest in the securities of the Company, neither does he has 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.

Tan Sri Mohamed Bin Ngah Said, is a Malaysian, aged 71, 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 Arm Force.

Tan Sri Mohamed does not have any interest in the securities of the Company, neither does he has 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.

Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP, is a Malaysian, aged 39, is an advocate and solicitor. He graduated from the University of Wales, Aberysthwyth. As an advocate and solicitor, he started his career with Sri Ram & Co., and thereafter set up his practice under the name and style of Krish Maniam & Co., Advocates and Solicitors. He is also the Executive Director of KKlub Berhad, Bio Cosmo Berhad and KKlub Limited (Hong Kong).

Datuk Seri Krishna does not have any interest in the securities of the Company, neither does he has 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, is a Malaysian, aged 46, 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.

Dato' Jeyaraj a/l V. Ratnaswamy, is a Malaysian, aged 54, has a Masters Degree in Finance from the Royal Melbourne Institute of Technology, and is a member of the Institute of Chartered Accountants in England and Wales, a member of the Malaysian Institute of Accountants and the Association of Certified Fraud Examiners. He also qualified as a member of the Institute of Taxation, England. He is a Chartered Accountant and has been in private practice for over twenty years. Prior to this, he served with Messrs KPMG for nine year working in their various offices in the UK, Singapore and Malaysia. He is currently a partner of the firm of Chartered Accountants, Messrs MustaphaRaj, an Executive Director of a consulting firm specialising in insolvency. Currently he is a Director of Golden Plus Holdings Berhad.

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

Dato' Jeyaraj does not have any interest in the securities of the Company, neither does he has 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.

board of directors

Ng Kay Eng, is a Malaysian, aged 45, 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 has 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.

Leong Chen Nyen, is a Malaysian, aged 51, 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 presently sits on the Audit, Remuneration and Nomination Committees as an ordinary member.

Mr Leong does not have any interest in the securities of the Company, neither does he has 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, is a Malaysian, aged 51, was appointed as an Independent Non-Executive Director on 06 January 2009. 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.

Encik Kushairi does not have any interest in the securities of the Company, neither does he has 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.

Heng Teck Boun, is a Malaysian, aged 54, attended Technical College in Royal Malaysia Air Force Kinrara, Kuala Lumpur and the Royal Air Force Halton, United Kingdom. He is also a Certified Aviation Electrical/Electronics Technician. Prior to starting his own business in industrial packaging in 1984, he has worked as an Aviation Technician with the Royal Malaysian Air Force and thereafter seconded to AIROD.

Mr Heng does not have any interest in the securities of the Company, neither does he has 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 submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2009.

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	(4,980,016)	(4,619,464)
Attributable to:		
Equity holders of the Company	(4,980,016)	(4,619,464)
Minority interests	-	-
	<u>(4,980,016)</u>	<u>(4,619,464)</u>

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 other than the provision for onerous contract of RM2,445,989 as disclosed in Note 6 to the financial statements.

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 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:

Dato' Setia Abdul Halim bin Dato' Haji Abdul Rauf

Tan Sri Mohamed bin Ngah Said

Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP

Lee Chee Kiean

Dato' Jeyaraj a/l V. Ratnaswamy

Ng Kay Eng

Leong Chen Nyen

Kushairi bin Zaidel (appointed on 6 January 2009)

Heng Teck Boun (alternate director to Datuk Seri Krishna Kumar a/l Dato' Sivasubramaniam, JP)

directors' report

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 31.3.09
	At 1.4.08	Acquired	Sold	
The Company				
Direct interest:				
Lee Chee Kian	10,000	-	-	10,000
Subsidiary - KFM Marketing Sdn. Bhd.				
Direct interest:				
Lee Chee Kian	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
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

directors' report

OTHER STATUTORY INFORMATION (CONT'D.)

- (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 24 July 2009.

DATO' SETIA ABDUL HALIM
BIN DATO' HAJI ABDUL RAUF

LEE CHEE KIEAN

statement by directors

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

We, DATO' SETIA ABDUL HALIM BIN DATO' HAJI ABDUL RAUF 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 52 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 2009 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 24 July 2009.

DATO' SETIA ABDUL HALIM
BIN DATO' HAJI ABDUL RAUF

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 52 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 24 July 2009

CHAN SEN SAN

Before me,
Krishnan a/l Madavanair AMP, PPN
Commissioner for Oaths
C 036

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 2009 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 52.

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 evidence 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 2009 and of their financial performance and cash flows of the Group and of the Company for the year then ended.