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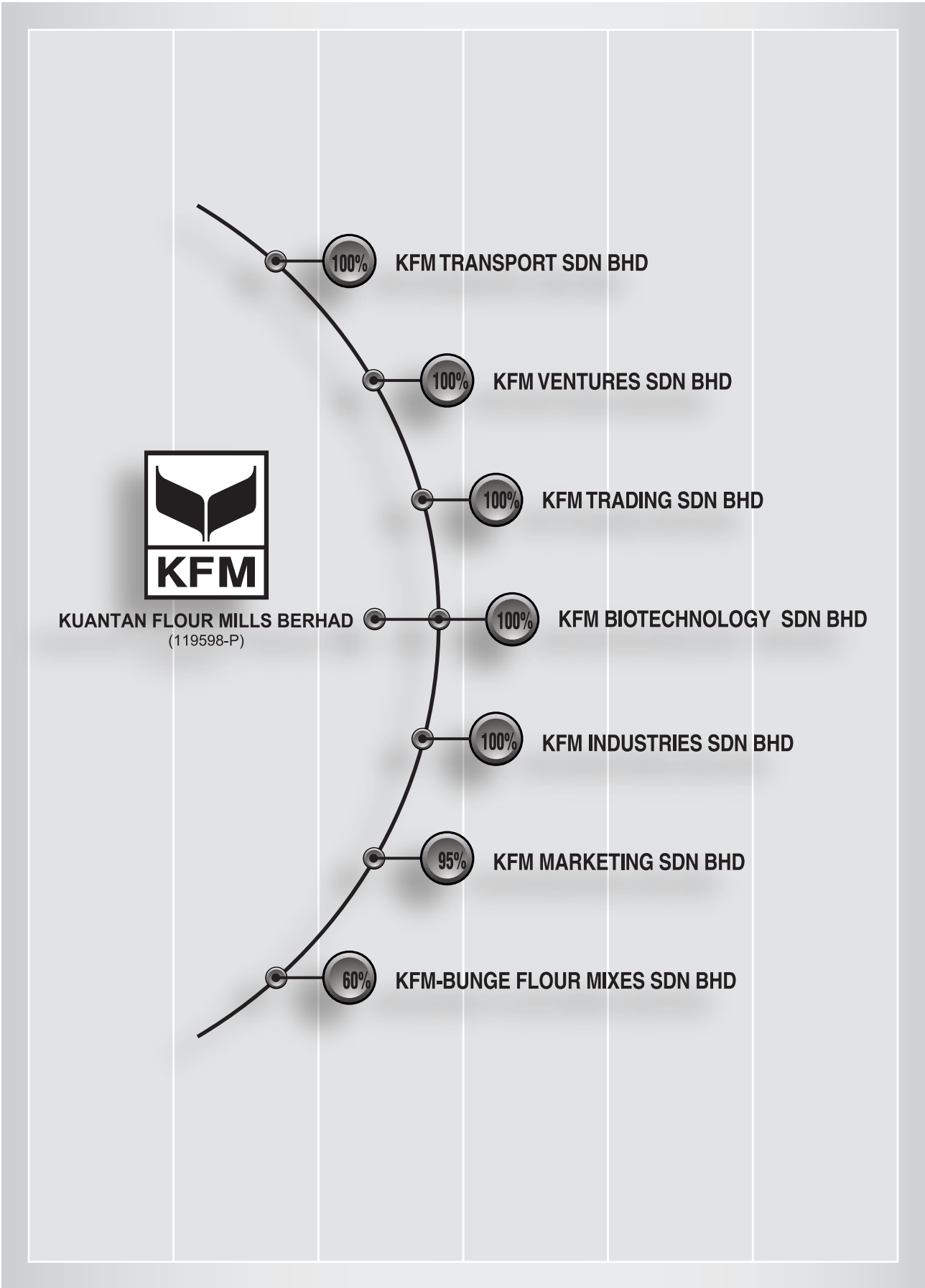


KUANTAN FLOUR MILLS BERHAD
(119598-P)

C O N T E N T S

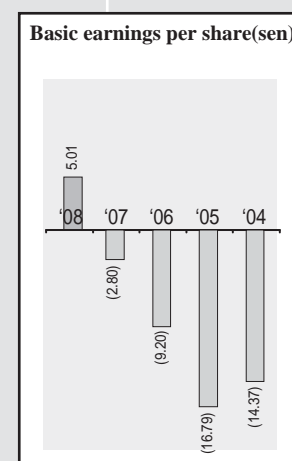
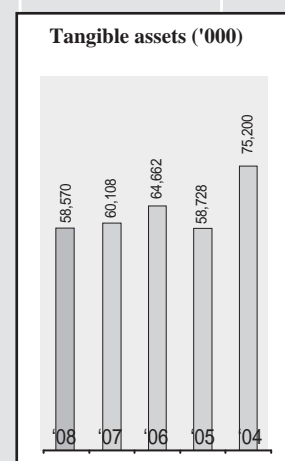
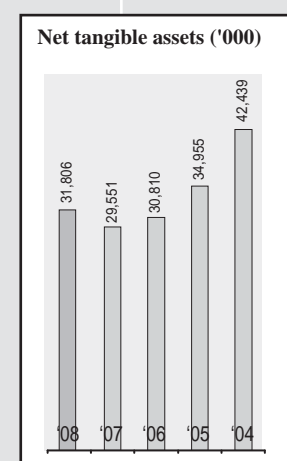
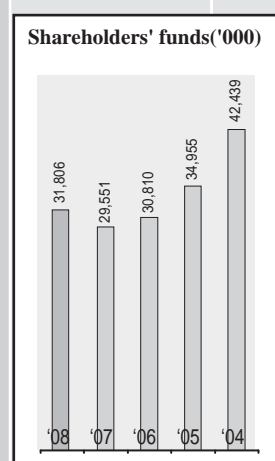
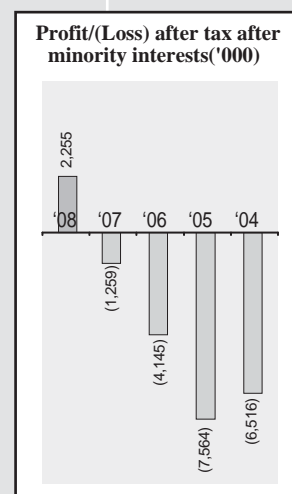
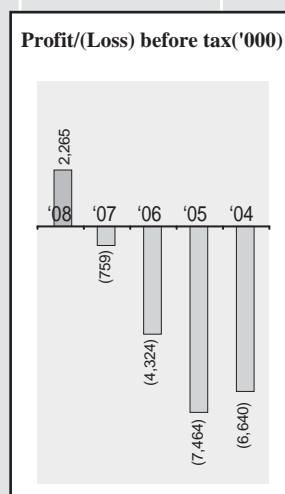
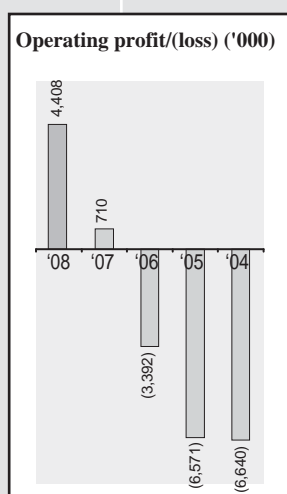
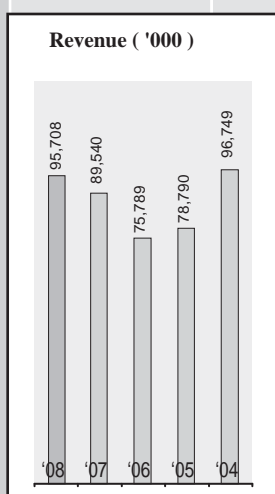
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CORPORATE STRUCTURE



GROUP FINANCIAL HIGHLIGHTS

Group	2008	2007	2006	2005	2004
	' 000	' 000	' 000	' 000	' 000
Revenue	95,708	89,540	75,789	78,790	96,749
Operating profit /(loss)	4,408	710	(3,392)	(6,571)	(6,640)
Profit/(Loss) before tax	2,265	(759)	(4,324)	(7,464)	(6,640)
Profit/(Loss) after tax after minority interests	2,255	(1,259)	(4,145)	(7,564)	(6,516)
Shareholders' funds	31,806	29,551	30,810	34,955	42,439
Net tangible assets	31,806	29,551	30,810	34,955	42,439
Tangible assets	58,750	60,108	64,662	58,728	75,200
Basic earnings per share (sen)	5.01	(2.80)	(9.20)	(16.79)	(14.37)



Board of Directors

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

Dato' Krishna Kumar a/l Dato' Sivasubramaniam, JP
(Non Independent, Executive Director)
(Alternate: Heng Teck Boun, appointed on 23 May 2008)

Ng Kay Eng
(Independent, Non-Executive Director)

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

Tan Sri Mohamed bin Ngah Said
(Non Independent, Executive Deputy Chairman)
(Appointed on 23 May 2008)

Leong Chen Nyen
(Independent, Non-Executive Director)
(Appointed on 23 May 2008)

Lee Chee Kian
(Non Independent, Executive Director)
(Appointed on 23 May 2008)

Audit Committee

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

Dato' Krishna Kumar a/l Dato' Sivasubramaniam, JP
(Member, Non Independent, Executive Director)
(Resigned on 23 May 2008)

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

Leong Chen Nyen
(Member, Independent, Non-Executive Director)
(Appointed on 23 May 2008)

Company Secretary

Tan Yoke May (LS 0004299)

Inuri Management Sdn Bhd
177-3, Floor 3, Jalan Sarjana
Taman Connaught, Cheras
56000 Kuala Lumpur

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

Bankers

CIMB Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad

Share Registrar

Bina Management (M) Sdn Bhd
Lot 10, The Highway Centre
Jalan 51/205
46050 Petaling Jaya
Selangor Darul Ehsan
Tel No: 603-77843922
Fax No: 603-77841988

Stock Exchange Listing

Bursa Malaysia Securities Berhad (Second Board)
Code : 8303

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 2008.

FINANCIAL REVIEW

For the financial year ended 31 March 2008, the Group recorded a profit of RM 2.25 million as against a loss of RM 1.26 million for the previous financial year. This was achieved through higher revenue of RM 95.71 million as compared to RM 89.54 million for the previous financial year. During the financial year ended 31 March 2008 the prices of non-controlled flour were adjusted higher to cope with the higher wheat cost and ocean freight rates.

However, at Company level we made a loss of RM 0.4 million as compared to a profit of RM 1.83 million for the previous year. This was mainly attributed to the write-off of outstanding amounts owing by the subsidiary companies to the Holding company.

REVIEW OF THE INDUSTRY

During the year under review, the flour industry in Malaysia was operating in a very difficult and challenging environment given that the world wheat prices and the ocean freight rates were at record high levels. The situation was made even worse when Australia which is one of the major wheat suppliers to the region encountered drought for two years in a row. As a result of this, the flour millers in Malaysia had no choice but to increase the flour prices of all non-controlled flour to avoid the risk of interruption of flour supply in the country. This was done with the consent of the Malaysian Government to enable the flour millers to cope with the higher wheat cost. In addition, our continual efforts to be cost effective and the improvement in the productivity level have also contributed to the positive result for this financial year.

SUBSIDIARY COMPANIES

KFM Transport Sdn. Bhd (KFMT) and KFM Marketing Sdn. Bhd (KFMM) have temporary ceased operation since April 2007 and their operations have been taken over by the Company as a measure of streamlining the operation. This was done with the objective of improving efficiency and to be more cost effective.

All other subsidiary companies are dormant.

PROSPECTS

The global wheat supply condition is expected to improve with most of the wheat producing countries have been reporting better crop this year and hence the world wheat prices are expected to reduce. However, the competition within the industry is expected to be intense. In view of this, the Group shall continue to identify synergistic businesses with the objective of enhancing its earnings. Barring any unforeseen circumstances, the Group's performance in the coming financial year is expected to improve even further.

ACKNOWLEDGEMENT

It cannot be denied that we had endured through a very difficult and challenging year as we had to operate at highest records level of global wheat prices and ocean freight rates. At the same time, it also cannot be denied that despite operating in such an environment, the dedication and commitment given by the management and the staff have been excellent and as a result of this the Group managed to turn-around the overall performance.

The Board of Directors would like to extend its deepest appreciation to the management and the staff for their continuing dedication and hard work. I also wish to convey the Board's appreciation to all customers, bankers, business associates and shareholders for their continuous support and trust in the company.

Thank you.

Dato' Abdul Halim bin Dato' Haji Abdul Rauf
Chairman

CORPORATE GOVERNANCE STATEMENT

These Board of Directors (“the Board”) is committed to achieving best practices in corporate governance by ensuring that the recommendations of the Malaysian Code of Corporate Governance (“the Code”) are practised throughout the Group as a means of managing the business and affairs of the Group with honesty, integrity and professionalism in order to protect the interest of shareholders.

Steps are currently being undertaken to evaluate the status of the Group’s corporate governance with a view to implementing the Code’s best practices.

BOARD OF DIRECTORS

This is an experienced Board comprising members with a wide range of business, financial and technical backgrounds who leads the Company.

BOARD BALANCE

The Board currently has seven (7) Directors, comprising three (3) Executives and four (4) 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. A brief profile of each Director is presented on pages 14 to 15 of this Annual Report.

BOARD MEETINGS

During the financial year ended 31 March 2008, the Board met on 10 occasions.

The number of Directors’ meetings and attendance of Directors from their date of appointment for the financial year under review are set out below:

Directors	Number Of Board Meetings held during Tenure in office	Attendance
Dato’ Abdul Halim bin Dato’ Haji Abdul Rauf	10	10
Dato’ Krishna Kumar a/l Dato’ Sivasubramaniam, JP (Alternate: Heng Teck Boun, appointed 23 May 2008)	10	10
Ng Kay Eng	10	10
Jeyaraj a/l V. Ratnaswamy	7	5
Dato’ Dr. Shanmughanathan a/l Vellanthurai (retired on 25 September 2007)	6	1
Tan Sri Mohamed Bin Ngah Said (appointed on 23 May 2008)	-	-
Leong Chen Nyen (appointed on 23 May 2008)	-	-
Lee Chee Kiean (appointed on 23 May 2008)	-	-

SUPPLY OF INFORMATION

All Directors review a Board Report prior to the Board meeting. This is issued in sufficient time (at least 7 days prior to the meeting) to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. The Board Report includes -

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

All Directors have access to the advice and services of the Company Secretary.

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. 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.

REMUNERATION PROCEDURE

The Remuneration Committee, a sub-committee of the Board, was set up in May 2008 comprising Ng Kay Eng, Jeyaraj a/l Ratnaswamy and Leong Chen Nyen. Under its terms of reference, this committee recommends to the Board the framework of executive remuneration package for each Executive Director based on his duties and responsibilities. It is nevertheless the ultimate responsibility of the entire Board to approve the remuneration of these Directors. The determination of the remuneration of the Non-Executive Directors is a matter for the Board as a whole. 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.

The aggregate directors' remuneration paid or payable or otherwise made available to all directors of the Company during the financial year ended 31 March 2008 are as follows :-

	Executive	Non –Executive	Total
Salary and other emoluments	151,400	4,900	156,300
Pension costs – defined Contribution plans	18,000	-	18,000
Fees	-	117,000	117,000
	169,400	121,900	291,300

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

	Executives	Non Executive
Below RM50,000	-	4
RM50,001 to RM100,000	-	-
RM100,001 to RM150,000	-	-
RM150,001 to RM200,000	1	-
RM200,001 to RM250,000	-	-
RM250,001 to RM300,000	-	-
RM300,001 to RM350,000	-	-
RM350,001 to RM400,000	-	-

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, 11 and 12.

CORPORATE GOVERNANCE STATEMENT

SHAREHOLDERS

The Company values its dialogue with both institutional shareholders and private investors, and recognizes the timely and equal dissemination of relevant information to be provided to them. In this regards, 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
- The Annual Reports
- Press Interview
- Analyst briefing with fund managers and potential investors

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 principle forum for dialogue and interaction with the shareholders wherein shareholders are given an 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 position and 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 can be found on page 13.

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

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable Financial Reporting Standards in Malaysia 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 flows of the Group and Company for the financial year.

CORPORATE GOVERNANCE STATEMENT

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE AUDITED FINANCIAL STATEMENT (CONT'D.)

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 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 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 2008 is RM40,000.

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, Forecast or Projection;
- Profit Guarantee;
- Material Contracts.
- Contracts Relating to Loan;
- Revaluation on Landed Properties;
- Recurrent Related Party Transaction of Revenue or Trading Nature.

AUDIT COMMITTEE REPORT

The Board of Directors of the Company is pleased to present the report of the Audit Committee for the financial year ended 31 March 2008.

The present members of the Audit Committee comprise: -

Jeyaraj a/l V. Ratnaswamy

(Chairman, Independent, Non-Executive Director)

(Appointed on 27 July 2007 and redesignated as Chairman on 23 November 2007)

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

(Member, Non Independent, Executive Director)(Resigned as member on 23 May 2008)

Ng Kay Eng

(Member, Independent, Non-Executive Director)

Leong Chen Nyen

(Member, Independent, Non-Executive Director)(Appointed as member on 23 May 2008)

MEETINGS

The Committee shall meet 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 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.

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
Jeyaraj a/l V. Ratnaswamy (Appointed on 27 July 2007 and redesignated as Chairman on 23 November 2007)	4	4
Dato' Krishna Kumar a/l Dato' Sivasubramaniam, JP (Resigned as member on 23 May 2008)	7	6
Ng Kay Eng	7	7
Dato' Dr. Shanmughanathan a/l Vellanthurai (Retired on 25 September 2007)	5	2
Leong Chen Nyen (Appointed on 23 May 2008)	-	-

SUMMARY OF ACTIVITIES

The Audit Committee carried out the following activities during the financial year ended 31 March 2008.

- a) Reviewed financial statements including quarterly financial announcements to Bursa Malaysia Securities Berhad.
- b) Reviewed the internal controls of the Company.

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 I of the First Schedule of the Accountants Act, 1967 or:
 - 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: or
 - must have a degree/masters/doctorate in accounting or finance and at least 3 years post qualification experience in accounting or finance; or
 - 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 coordination 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.

AUDIT COMMITTEE REPORT

TERMS OF REFERENCE (CONT'D.)

3) Duties (Cont'd.)

- 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' management letter and management's response
- To oversee the internal audit function by:
 - reviewing the adequacy of scope, functions and resources of the internal auditors 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 Company has recognized the need and has implemented an internal audit system to complement the effectiveness of the Group's system of internal controls. These are an essential and integral part of the risk management process and the Board has outsourced its internal audit function to maintain independence and attain efficiency in the review and maintenance of the systems of controls.

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 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 recognises 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 recognises 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 recognises 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 26 August 2008.

BOARD OF DIRECTORS

Dato' Abdul Halim Bin Dato' Haji Abdul Rauf, is a Malaysian, aged 69, 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 the 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' Halim is the Executive Deputy Chairman of Hil Industries Berhad, A & M Realty Berhad, the Chairman of MIDF Consultancy and Corporate Service Sdn Bhd, Kontena Nasional Global Logistics Sdn Bhd and Golden Plus Holdings Berhad.

Dato' Halim 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.

Dato' Krishna Kumar a/l Dato' Sivasubramaniam JP, is a Malaysian, aged 38, is an advocate and solicitor. He graduated from the University of Wales, Aberystwyth. 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, KKlub Limited (Hong Kong) and Luxury Concepts Sdn. Bhd.

Dato' Krishna 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, is a Malaysian, aged 44, 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 Committee 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.

Jeyaraj a/l Ratnaswamy, is a Malaysian, aged 53 having a Masters Degree in Finance from 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 Committee.

Mr Jeyraj 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.

Tan Sri Mohamed Bin Ngah Said, is a Malaysian, aged 70 and appointed to the Board on 23 May 2008, as a Non Independent, Executive Deputy Chairman. He graduated from the Royal Military College, Malaysia and the Royal Military Academy, 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 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.

Leong Chen Nyen, is a Malaysian, aged 50 and appointed to the Board on 23 May 2008, as an Independent Non-Executive Director. He 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) 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 Committee as an ordinary member.

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.

Lee Chee Kian, is a Malaysian, aged 45 and appointed to the Board on 23 May 2008 as a Non-Independent Executive Director. He holds a Bachelors 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 an Executive Director and 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 have 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.

Heng Teck Boun, is a Malaysian, aged 53 was appointed to the Board on 23 May 2008 as an alternate director to Dato' Krishna Kumar a/l Dato' Sivasubramaniam,JP. He 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 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 submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2008.

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
Profit/(Loss) for the year	2,255,291	(401,745)
Attributable to:		
Equity holders of the Company	2,255,291	(401,745)
Minority interests	-	-
	<u>2,255,291</u>	<u>(401,745)</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.

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' Abdul Halim bin Dato' Haji Abdul Rauf

Dato' Krishna Kumar a/l Sivasubramaniam

Ng Kay Eng

Jeyaraj a/l V. Ratnaswamy

Dato' Dr. Shanmughanathan a/l Vellanthurai

(Retired on 25 September 2007)

Tan Sri Mohamed bin Ngah Said

(Appointed on 23 May 2008)

Lee Chee Kian

(Appointed on 23 May 2008)

Leong Chen Nyen

(Appointed on 23 May 2008)

Heng Teck Boun

(Alternate director to Dato' Krishna Kumar a/l Sivasubramaniam) (Appointed on 23 May 2008)

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, other than those arising from the share options to be granted under the Employee Share Options Scheme.

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

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

EMPLOYEE SHARE OPTION SCHEME

The Company's Employee Share Option Scheme ("ESOS") is governed by the by-laws approved by the shareholders on 21 November 2000. The salient features and other terms of the ESOS are disclosed in Note 24 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 200,000 ordinary shares of RM1.00 each.

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 11 July 2008.

**DATO' 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' 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 21 to 52 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards 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 2008 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 11 July 2008.

**DATO' ABDUL HALIM BIN
DATO' HAJI ABDUL RAUF**

LEE CHEE KIEAN

STATUTORY DECLARATION

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

I, SIEW KIN MENG, 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 21 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 SIEW KIN MENG
at Kuantan in the state of
Pahang Darul Makmur on 11 July 2008.

SIEW KIN MENG

Before me,
Yip 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 2008 of the Group and of the Company, and 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 21 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 judgment, 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 Company'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 Company'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 2008 and of their financial performance and cash flows of the Group and of the Company 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.

However, in our opinion, except for 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 subsidiaries have been properly kept in accordance with the provisions of the Act.

- (b) We are satisfied that the accounts 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 accounts 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

Kuantan, Pahang Darul Makmur, Malaysia

11 July 2008

OONG KEE LEONG

No. 1246/12/09 (J)

Chartered Accountant

INCOME STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
Revenue	3	95,707,608	89,539,932	95,941,379	82,230,975
Cost of sales	4	(83,134,029)	(80,253,011)	(83,192,731)	(75,039,136)
Gross profit		12,573,579	9,286,921	12,748,648	7,191,839
Other income		128,960	389,399	89,232	370,503
Administrative expenses		(5,702,402)	(6,407,256)	(8,513,145)	(4,141,712)
Selling expenses		(2,592,423)	(2,559,182)	(2,592,423)	(155,160)
Operating profit		4,407,714	709,882	1,732,312	3,265,470
Finance costs	5	(2,142,469)	(1,469,047)	(2,124,280)	(1,427,894)
Profit/(Loss) before tax	6	2,265,245	(759,165)	(391,968)	1,837,576
Income tax expense	9	(9,954)	(500,088)	(9,777)	(2,739)
Profit/(Loss) for the year		2,255,291	(1,259,253)	(401,745)	1,834,837
Attributable to:					
Equity holders of the Company		2,255,291	(1,259,253)	(401,745)	1,834,837
Minority interests		-	-	-	-
		2,255,291	(1,259,253)	(401,745)	1,834,837
Earnings/(Loss) per share attributable equity holders of the Company (sen)					
- Basic	10(a)	5.01	(2.80)		
- Diluted	10(b)	-	-		

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

BALANCE SHEETS

AS AT 31 MARCH 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
ASSET					
Non-current assets					
Property, plant and equipment	11	24,229,290	23,355,585	23,775,897	22,215,756
Investments in subsidiaries	12	-	-	8	8
Other investments	13	1,458,916	1,458,916	1,458,916	1,458,916
		<u>25,688,206</u>	<u>24,814,501</u>	<u>25,234,821</u>	<u>23,674,680</u>
Current assets					
Inventories	15	10,842,623	9,780,931	10,842,623	8,334,859
Trade receivables	16	16,297,244	18,600,265	16,116,312	22,688,402
Other receivables	17	3,877,506	4,407,174	3,807,038	4,215,605
Marketable securities	18	16,677	16,677	16,677	16,677
Cash and bank balances	19	2,027,940	2,488,062	1,910,120	960,496
		<u>33,061,990</u>	<u>35,293,109</u>	<u>32,692,770</u>	<u>36,216,039</u>
TOTAL ASSETS		<u>58,750,196</u>	<u>60,107,610</u>	<u>57,927,591</u>	<u>59,890,719</u>
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	24	45,053,000	45,053,000	45,053,000	45,053,000
Share premium		6,446,933	6,446,933	6,446,933	6,446,933
Accumulated losses		(19,693,738)	(21,949,029)	(20,367,718)	(19,965,973)
		<u>31,806,195</u>	<u>29,550,904</u>	<u>31,132,215</u>	<u>31,533,960</u>
Minority interests		2	2	-	-
Total equity		<u>31,806,197</u>	<u>29,550,906</u>	<u>31,132,215</u>	<u>31,533,960</u>
Non-current liability					
Borrowings	20	13,046,641	16,785,019	13,046,641	16,428,615
Current liabilities					
Borrowings	20	4,675,601	4,282,831	4,609,843	4,051,309
Trade payables	22	5,811,555	6,973,876	5,771,701	6,052,722
Other payables	23	3,410,202	2,514,978	3,367,191	1,824,113
		<u>13,897,358</u>	<u>13,771,685</u>	<u>13,748,735</u>	<u>11,928,144</u>
Total liabilities		<u>26,943,999</u>	<u>30,556,704</u>	<u>26,795,376</u>	<u>28,356,759</u>
TOTAL EQUITY AND LIABILITIES		<u>58,750,196</u>	<u>60,107,610</u>	<u>57,927,591</u>	<u>59,890,719</u>

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2008

GROUP	Non-distributable Share Capital RM	Share Premium RM	Distributable Profit / (Accumulated Losses) RM	Minority Interests RM	Total RM
At 1 April 2006	45,053,000	6,446,933	(20,689,776)	2	30,810,159
Loss for the year	-	-	(1,259,253)	-	(1,259,253)
At 31 March 2007	45,053,000	6,446,933	(21,949,029)	2	29,550,906
At 1 April 2007	45,053,000	6,446,933	(21,949,029)	2	29,550,906
Profit for the year	-	-	2,255,291	-	2,255,291
At 31 March 2008	45,053,000	6,446,933	(19,693,738)	2	31,806,197
COMPANY					
At 1 April 2006	45,053,000	6,446,933	(21,800,810)	-	29,699,123
Profit for the year	-	-	1,834,837	-	1,834,837
At 31 March 2007	45,053,000	6,446,933	(19,965,973)	-	31,533,960
At 1 April 2007	45,053,000	6,446,933	(19,965,973)	-	31,533,960
Loss for the year	-	-	(401,745)	-	(401,745)
At 31 March 2008	45,053,000	6,446,933	(20,367,718)	-	31,132,215

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
Cash Flows from Operating Activities					
Profit/(Loss) before tax		2,265,245	(759,165)	(391,968)	1,837,576
Adjustments for:					
Depreciation	6	1,324,445	1,315,230	1,241,008	1,202,780
Gain on disposal of property, plant and equipment	6	(24,516)	(56,254)	(24,516)	(56,254)
Loss on disposal of marketable securities	6	-	323,329	-	-
Property, plant and equipment written off	6	-	22,806	-	1
Reversal of other payables	6	(920)	-	-	-
Unrealised foreign exchange loss	6	2,077	9,634	2,999	-
Provision for doubtful debts	6	1,510,630	2,309,297	4,448,923	1,072,272
Bad debts written off	6	117,000	66,333	95,909	58,192
Short term accumulating compensated absences	7	16,503	(1,804)	36,425	-
Write down of inventories	6	127,173	-	127,173	-
Interest income	6	(48,011)	(199)	(48,011)	(199)
Interest expense	5	2,142,469	1,469,047	2,124,280	1,427,894
Operating profit before working capital changes		7,432,095	4,698,254	7,612,222	5,542,262
(Increase) /Decrease in inventories		(1,188,865)	1,704,575	(2,634,937)	1,507,079
Decrease/(Increase) in receivables		1,202,982	644,625	2,264,192	(5,165,614)
(Decrease)/Increase in payables		(667,880)	(1,238,228)	840,486	3,074,732
Cash generated from operations		6,778,332	5,809,226	8,081,963	4,958,459
Interest paid		(2,142,469)	(1,469,047)	(2,124,280)	(1,427,894)
Taxes paid		(9,954)	(2,685)	(9,777)	(2,685)
Net cash generated from operating activities		4,625,909	4,337,494	5,947,906	3,527,880

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(1,348,654)	(676,399)	(1,348,654)	(494,907)
Proceeds from disposal of property, plant and equipment		372,300	317,918	372,300	317,918
Proceeds from disposal of marketable securities		-	155,677	-	-
Interest received		48,011	199	48,011	199
Net cash used in investing activities		<u>(928,343)</u>	<u>(202,605)</u>	<u>(928,343)</u>	<u>(176,790)</u>
Cash Flows from Financing Activities					
Repayment of hire purchase instalments		(484,735)	(619,661)	(440,686)	(545,430)
Repayment of term loans		(3,629,253)	(3,027,784)	(3,629,253)	(3,027,784)
Net cash used in financing activities		<u>(4,113,988)</u>	<u>(3,647,445)</u>	<u>(4,069,939)</u>	<u>(3,573,214)</u>
Net (decrease)/increase in cash and cash equivalents		(416,422)	487,444	949,624	(222,124)
Cash and cash equivalents at beginning of year		<u>2,378,604</u>	<u>1,891,160</u>	<u>960,496</u>	<u>1,182,620</u>
Cash and cash equivalents at end of year	19	<u>1,962,182</u>	<u>2,378,604</u>	<u>1,910,120</u>	<u>960,496</u>

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