

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of the Company for financial year ended March 31, 2003.

FINANCIAL REVIEW

For financial year ended 31st March, 2003, the Group recorded a profit after tax of RM4.12 million and RM4.07 million for the Company. This is a significant turnaround as the Group suffered a loss of RM1.7 million for the last financial year ended March 31, 2002. The profit was achieved against a turnover of RM92.91 million for the Group and RM90.58 million for the Company.

Turnover for the Company declined by about 5.5% for this financial year compared to that of the last financial year. Some sales were lost due to the entry of two new flour mills into the industry. Turnover for the Group correspondingly declined by about 5.3% as well for this financial year compared to last financial year.



INDUSTRY TRENDS AND DEVELOPMENT



The industry continues to be very competitive as there are more players now in the industry. The flour market has not been expanding at a rate that can absorb the excess production capacity now prevailing. Meanwhile, world wheat prices continue to maintain at high levels due to low world stocks brought about by the severe droughts last year in major wheat exporting countries which affected world supplies. To maintain our market share, the Company shall put in more effort in terms of providing better quality products and services to its customers. More efforts shall also be taken to reduce costs in our operations.



SUBSIDIARY COMPANIES

Apart from KFM Marketing Sdn. Bhd. (KFMM) and KFM Transport Sdn. Bhd. (KFMT), all other subsidiary companies are dormant. KFM Transport provides transport services to distribute and deliver flour to our customers. For this financial year, KFMT recorded an operating loss of RM286,497.00. For financial year ended March 31, 2002, the loss recorded was RM179,320.00. As for KFMM, which trades in products related to baking industry, turnover increased to RM3.23 million for this financial year compared to RM3.00 million for the last financial year. Nett profit for KFMM had also improved from RM79,046.00 to RM178,576.00. As more products are added to the list of items traded, the turnover and profit for KFMM is expected to increase for the coming financial year.



PROSPECTS

World wheat prices and the extent of competition among flour millers will determine the prospects of the flour milling industry. Currently, the competition among flour millers is rather intense with each trying to secure its market share. World wheat prices currently are at high levels because of low world stocks. However, with more favorable weather prevailing this year in most exporting countries, world wheat prices may drop to lower levels and this may help the wheat crop industry. However, competition among flour millers may neutralize the gains from lower wheat prices. In view of these uncertainties, various measures are being undertaken by the Company to reduce operation costs and increase its efficiency.



CHAIRMAN'S STATEMENT (CONT'D)

ACKNOWLEDGEMENT

On behalf of the Board, I wish to thank all staff and employees for their dedication and hard work. I also wish to convey the Board's appreciation to all customers, bankers, business associates and shareholders for their support for the Company. There have been some changes at the Board since the last financial year. Dato' Jaafar bin Dato' Haji Abdul Hamid, Vernon Khoo Tiam Hock, Putri Noor Shariza binti Noordin, Chan Wai Loon, Dato' Syed Md. Amin bin Syed Jan Aljeffri, Athi Isvar a/l Athi Nahappan, Dato' Haji Zulhasnan bin Rafique were not re-elected at the 18th Annual General Meeting held on 26.09.2002 and Lim Chiao Hak and Lee Sow Lin resigned on 12 August 2002 and 24 September 2002 respectively. I would like to thank them for their various contributions to the Company. I also would like to welcome Mr. Lew Mee Choon, Mr. Wu Tern Yue and Mr. Choong Show Tong to the Board.

Thank you.

Idris bin Abdullah @ Das Murthy
Chairman



CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") is committed to achieve best practices in corporate governance by ensuring that the recommendation of the Malaysian Code of Corporate Governance ("the Code") is 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 of implementing the Code's best practices.

BOARD OF DIRECTORS

An experienced Board comprising members with a wide range of business, financial and technical background, leads the company. The Board as a whole serves as the Remuneration and Nomination Committee. No smaller committee is recommended as the Company believes that all members must be equally responsible.

BOARD BALANCE

The Board currently has five (5) directors, comprising one (1) executive and four (4) non-executives. The executive director 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 discussion and decision making. A brief profile of each Director is presented on page 17 of this Annual Report.

BOARD MEETINGS

During the financial year ended 31 March 2003, the Board met on fourteen(14) occasions.

The attendance of the Board of Directors on all fourteen (14) Board Meetings can be found on page 58 of the Annual Report in the Statement accompanying notice of the Nineteenth Annual General Meeting.

SUPPLY OF INFORMATION

All directors review a Board report prior to the Board meeting. This is issued in sufficient time (at least 5 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 include:-

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

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

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 Associations, 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.

The Managing Director is subject to retirement at the Twenty First Annual General Meeting.



CORPORATE GOVERNANCE STATEMENT (CONT'D)

REMUNERATION PROCEDURE

The Board as a whole will serve as the Remuneration Committee for the Company. The directors' fees are approved at the Annual General Meeting by the shareholders, based on the recommendation of the Board. There were no provision for directors' fees except for the Managing Director and Executive Directors being provided with remuneration package based on their duties and responsibilities.

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

	Basic Salary Other Emoluments (RM'000)	Fees (RM'000)	Bonus (RM'000)	Total (RM'000)
Executive Directors	568.1	0.0	19.5	587.6
Non-Executive Directors	0.0	0.0	0.0	0.0
	<u>568.1</u>	<u>0.0</u>	<u>19.5</u>	<u>587.6</u>

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

	Executives	Non Executive
Below RM50,000	–	–
RM50,001 to RM100,000	1	–
RM100,001 to RM150,000	2	–
RM150,001 to RM200,000	–	–
RM200,001 to RM250,000	–	–
RM250,001 to RM300,000	1	–
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 activity are set out on pages 14 and 15.

SHAREHOLDERS

The Company recognizes the importance of communicating with its shareholders and does this through the annual report, annual general meeting and announcements via KLSE link. Additionally, a press conference is held immediately after the Annual General Meeting where the Chairman and the Executive Directors are present to answer, clarify and explain on any issues raised. The Company also responds to members of the media upon request to brief them on key events of the Company.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

ANNUAL GENERAL MEETING

The Annual General Meeting serves as one of the important means of communication with the shareholders. Notice of the Annual General Meeting and Annual Reports are sent to shareholders at least twenty-one days prior to the meeting. At each Annual General Meeting the Board presents the progress and performance of the business and encourages shareholders to participate in the question and answer session.

RELATIONSHIP WITH EXTERNAL AUDITORS

The role of Audit Committee in relation to the external auditors is described on pages 14 and 15.

FINANCIAL REPORTING

In presenting the annual financial statements and quarterly announcement 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 Directors acknowledge that they are responsible for maintaining a sound system of internal control which covers not only financial controls but also operational, compliance and risk management. The system of internal control provides reasonable but not absolute assurance against material misstatements, losses and fraud. The statement of internal control can be found on page 16 of the Annual Report.

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 approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flow of the Group and Company for the financial year.

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.



CORPORATE GOVERNANCE STATEMENT (CONT'D)

OTHER INFORMATION

(a) Non- audit fee

The amount of non-audit fees paid to external auditors for the financial year ended 31 March 2003 is RM2,500.

(b) Options, warrants or convertible securities exercised

During the year a total of 286,000 forfeited ordinary shares under the Employees' Share Option Scheme (ESOS) were granted to eligible employees under the ESOS which were approved by the shareholders on 21 November 2000. As at 31 March 2003, 1,111,000 units were exercised.

ADDITIONAL COMPLIANCE INFORMATION

In compliance with the Kuala Lumpur Stock Exchange Listing Requirements, the following additional information is provided:-

During the financial year under review, there were no:-

- share buybacks;
- American Depository Receipt (ADR) or Global Depository Receipt (GDR) programme sponsored by the Company;
- sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies;
- material variance between the results for the financial year and the unaudited results previously announced;
- profit guarantees given by the Company;
- material contracts between the Company and its subsidiaries that involve directors' or major shareholders except as those disclose in RRPT transactions;
- contract of loans between the Company and its subsidiaries that involve directors or major shareholders' interests;
- revaluation policy on landed properties.

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 2003.

The present members of the Audit Committee comprise:-

Choong Show Tong
(Chairman, Independent Non Executive Director)

Dato' Shaharuddin bin Shamsudin
(Member, Non Independent, Executive Director)

Wu Tern Yue
(Member, Independent Non Executive Director)

** all appointed on 30 September 2002

MEETINGS

The Committee had five (5) meetings during the year, which were attended by all members. Representative of the external auditors, Messrs PricewaterhouseCoopers also attended the meeting upon invitation. The Secretary to the Committee is the Company Secretary.

SUMMARY OF ACTIVITIES

The following activities were carried out by the Audit Committee during the financial year ended 31 March 2003:-

- a) Reviewed financial statements including quarterly financial announcements to the Kuala Lumpur Stock exchange
- b) Review the internal controls of the Company.

TERM 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 members, majority of whom shall comprise of independent Directors. At least one member must be member of the Malaysian Institute of Accountants or alternatively, a person must have at least 3 years working experience and have passed the examination specified in Part 1 of the First Schedule of the Accountants Act, 1967 or is a member of one of the associations specified in Part II of the said Schedule. The quorum shall be 2 members, whom must be independent Directors. The members of the Committee shall elect a Chairman from among their members who shall be an independent director.

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

No Alternate Director shall be appointed a member of the Audit Committee.



AUDIT COMMITTEE REPORT (CONT'D)

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 Kuala Lumpur Stock Exchange 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' management letter and management's response.
- To do the following when the internal audit function is established:-
 - review the adequacy of scope, functions and resources of the internal audit department and that it has the necessary authority to carry out its work
 - review internal audit programme
 - ensure co-ordination of external audit with internal audit
 - consider 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
 - review any appraisal or assessment of the performance of the staff of the internal audit function
 - approve any appointment or termination of senior staff member of the internal audit function
 - inform itself of resignation of internal audit staff members and provide the resigning staff member an opportunity to submit his/her reason for resignation
- 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 report.
- To review the effectiveness of internal control systems.

STATEMENT OF INTERNAL CONTROL

INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' and the Group's assets. The Listing Requirements of KLSE requires Directors of listed companies to include a statement in their annual report on the state of internal control.

BOARD RESPONSIBILITIES

The Directors acknowledges their responsibility for the Group's system of internal control to safeguard shareholders' investment 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 objective.

RISK MANAGEMENT FRAMEWORK

The Board recognizes the importance of managing risks and thus meets regularly to assess various risks involved in the business. 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.

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 approve annual business plan and budget of all business by the Board.
- Regularly review performance of the Group by the Board.
- Active participation by executive Directors in day-to-day running of the Group's operation.

BOARD OF DIRECTORS

IDRIS BIN ABDULLAH @ DAS MURTHY

Malaysian, aged 46 and was appointed Chairman on 26 September 2002.

Graduated from University of Malaya with Bachelor of Law (LLB) Hons. in 1981 and admitted to Roll of Advocates High Court of Malaysia in Borneo in 1982. Actively involved in advisory work with local companies based in Sarawak having interests in car importation, educational college, recreational centre, property development and air charter services. He currently holds directorships of companies involved in construction of government projects, manufacturing and distribution of fruit juice.

Encik Idris does not have any family relationship with any Director and/or major shareholder of the Company and there is no business arrangement with the Company in which he has personal interest. He has had no convictions for any offences within the past 10 years.

DATO' SHAHARUDDIN BIN SHAMSUDIN

Malaysian, aged 53 and had been with the Company since inception. He was appointed as Managing Director on 30 September 2002.

Graduated from University of Malaya with a Bachelor of Arts in Economics. Started his career in banking with United Malayan Banking Corporation Berhad as a Bank Officer and switched to commodity trading upon joining Felda Marketing Corporation in 1974. Subsequently in 1979 Dato' Shaharuddin joined Inventra Sdn Bhd as a Marketing Manager dealing in commodities including fertilizers. In 1984 he left Inventra, co-founded KFM.

Dato' Shaharuddin does not have any family relationship with any Director and/or major shareholder of the Company and there is no business arrangement with the Company in which he has personal interest. He has had no convictions for any offences within the past 10 years.

CHOONG SHOW TONG

Malaysian, aged 47 and was appointed as an Independent Non-Executive Director and Chairman of the Audit Committee on 26 September 2002 and 30 September 2002 respectively.

Mr. Choong is an Associate Member of the Institute of Chartered Accountants in England & Wales and was admitted as a Member (Public Accountant) of MIA in May 1983. He started his career as an Article Clerk in April 1978 and later became an Office Manager in a Chartered Accountants firm in London. In September 1983, he worked as an Office Manager in Christopher Chooi & Co in Kuala Lumpur, a firm of Chartered Accountants. Since October 1984 till now he is the Sole Proprietor of Allan Choong & Co., a Chartered/Public Accountants firm in Kuala Lumpur.

Mr. Choong does not have any family relationship with any Director and/or major shareholder of the Company and there is no business arrangement with the Company in which he has personal interest. He has had no convictions for any offences within the past 10 years.

WU TERN YUE

Malaysian, aged 38 and was appointed as an Independent Non-Executive Director and Member of the Audit Committee on 26 September 2002 and 30 September 2002 respectively.

Graduated from University of Malaya with a law degree in 1989. Admitted to Roll of Advocates and Solicitors, High Court of Malaya in 1990. Prior to setting up his own firm, Wu & Co, Johor Bahru in 1992, Mr. Wu has worked as a legal assistant with Lloyd Fernando & Associates, Kuala Lumpur from 1989 to 1990 and as Head of Litigation Department with KC Yap Kamaludin & Partners, Kuala Lumpur.

Mr. Wu does not have any family relationship with any Director and/or major shareholder of the Company and there is no business arrangement with the Company in which he has personal interest. He has had no convictions for any offences within the past 10 years.

LEW MEE CHOON

Malaysian, aged 50 and was appointed as Independent & Non-Executive Director on 25 February 2003.

He owns and manages retail business in Johor Bahru since early 1980 and he does not have any family relationship with any Director and/or major shareholder of the Company and there is no business arrangement with the Company in which he has personal interest. He has no convictions for any offences within the past 10 years.

