



KUANTAN FLOUR MILLS BERHAD
COMPANY NO: 119598-P

annual report
2006



KUANTAN FLOUR MILLS BERHAD
COMPANY NO: 119598-P



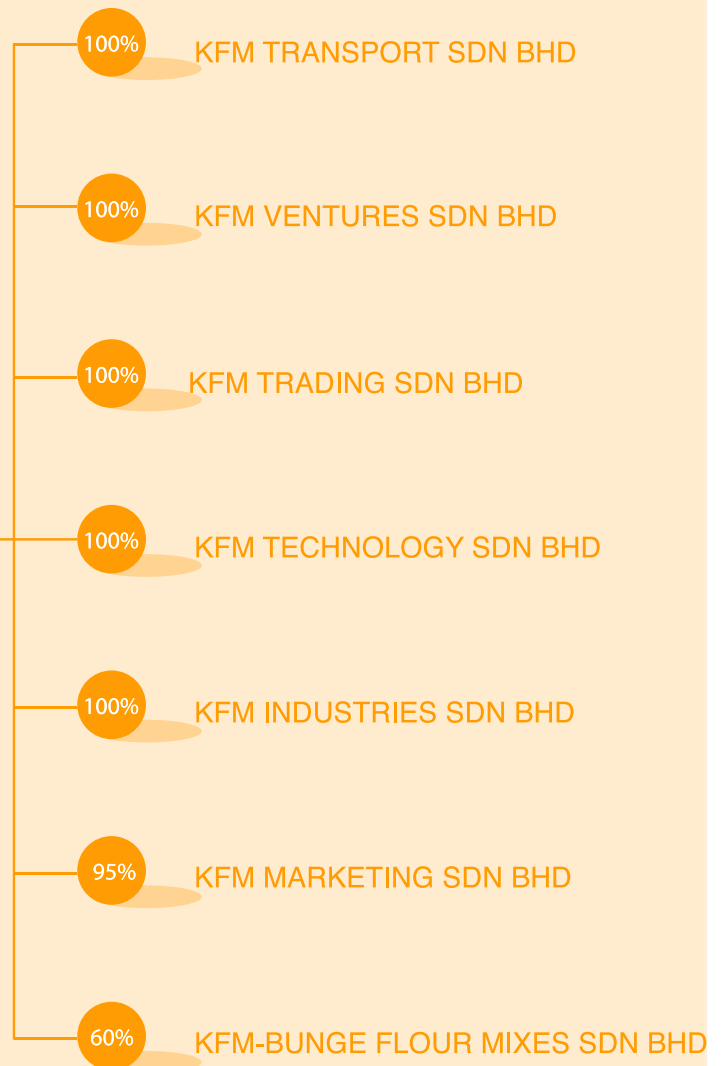
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CORPORATE STRUCTURE



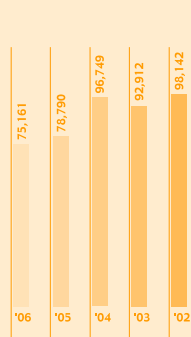
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COMPANY NO : 119598-P



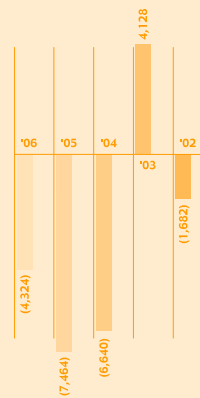
GROUP FINANCIAL HIGHLIGHTS

Group	Financial Highlights				
	2006 ' 000	2005 ' 000	2004 ' 000	2003 ' 000	2002 ' 000
Revenue	75,161	78,790	96,749	92,912	98,142
Operating (loss)/profit	(3,411)	(6,571)	(6,640)	4,128	(1,682)
(Loss)/profit before tax	(4,324)	(7,464)	(6,640)	4,128	(1,682)
(Loss)/profit after tax after minority interests	(4,145)	(7,564)	(6,516)	3,879	(1,696)
Shareholders' funds	30,810	34,955	42,439	47,565	37,948
Net tangible assets	30,810	34,955	42,439	47,565	37,948
Tangible assets	64,662	58,728	75,200	76,721	81,699
Basic (loss)/earnings per share (sen)	(9.20)	(16.79)	(14.37)	8.97	(5.87)

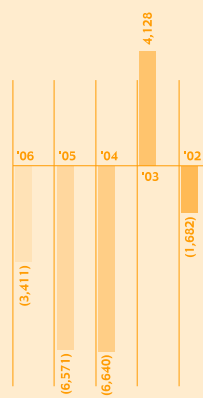
Revenue ('000)



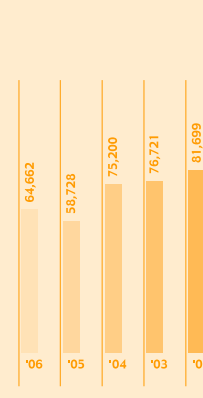
Profit before tax ('000)



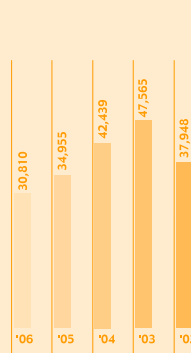
Operating profit ('000)



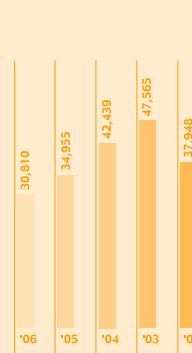
Tangible assets ('000)



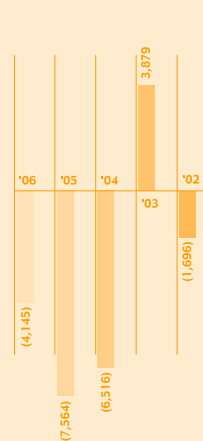
Shareholders' funds ('000)



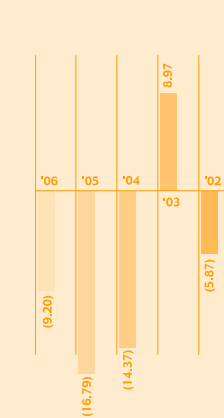
Net tangible assets ('000)



Profit / (loss) After tax After
Minority interests ('000)



Basic earnings per share (sen)



CORPORATE INFORMATION

Board of Directors

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

Dato' Krishna Kumar a/l Sivasubramaniam
(Non Independent Executive Director)

Michael Camillus Fernandez
(Non Independent Executive Director)

Dr. Shanmughanathan a/l Vellanthurai
(Independent Non-Executive Director)

Ng Kay Eng
(Independent Non-Executive Director)

Audit Committee

Dr. Shanmughanathan a/l Vellanthurai
(Chairman, Independent Non-Executive Director)

Dato' Krishna Kumar a/l Sivasubramaniam
(Member, Non Independent Executive Director)

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

Company Secretary

Tan Yoke May *(LS 0004299)*

Inuri Management Sdn Bhd
177, Floor 1, Jalan Sarjana
Taman Connaught Cheras
56000 Kuala Lumpur

Auditors

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

Registered Office

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

Solicitor

Loke Chew & Zainal
24, 1st Floor, Jalan Telok Sisek
25000 Kuantan, Pahang Darul Makmur
25740 Kuantan

Bankers

Bumiputra-Commerce 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

CHAIRMAN STATEMENT

On behalf of the Board of Directors, I am pleased to present the 22nd Annual Report and the Financial Statements of the Group and the Company for the financial year ended 31st March 2006.

FINANCIAL REVIEW

For the financial year ended 31st March 2006, the Group recorded a lower loss at RM 4.14 million as compared to RM 7.564 million of the previous year. This was achieved despite the Group recording lower revenue of RM 75.16 million as compared to RM 78.79 of the previous year. The reduction in losses was mainly due to the Group restructuring its operation and the realignment of its management team with the objective of improving the overall productivity and efficiency of the company.

REVIEW OF THE INDUSTRY

During the year under review, the overall flour milling industry in Malaysia was going through some difficult periods with the world wheat prices remaining volatile at high level coupled with the excess production capacity in the country. The situation was worsened with the outbreak of avian flu in Malaysia during the early part of year 2006. This has resulted in the prices of our by-products namely bran and pollard which are sold to feed-millers and animal farms dropping to a very low level. Despite the challenges faced during the year, we managed to reduce our losses by improving the overall efficiency and productivity by streamlining our operation. In addition, as part of our commitment to quality, our flour mill has implemented and obtained the certification of ISO 9001:2000 quality system in February 2006.

SUBSIDIARY COMPANIES

Apart from KFM Transport Sdn. Bhd. (KFMT) and KFM Marketing Sdn. Bhd. (KFMM), other subsidiary companies are operationally dormant. During the year under review, KFMT recorded a lower loss of RM 157,915 as compared to RM 414,046 of the previous year. The reduction in losses was mainly due to the improvement in revenue. KFMT achieved an increase in revenue by 28.2% at RM4.377 million as compared to RM 3.414 million of the previous year. In order to operate efficiently and productively, KFMT shall continue to be the service provider of transport to the flour operation and to concentrate in expanding the transport business by increasing its external customer base in the coming year.

For KFMM, the revenue recorded during the year under review was RM 53.789 million as compared to RM 12.904 million in the previous year. The higher revenue was mainly due to the Group restructuring where the sale of flour was carried out by KFMM. KFMM however incurred a loss of RM 489,370 as compared to a net profit of RM 333,181 of the previous year. KFMM has started to intensify its trading activities with the inclusion of other food ingredient which has attributed to higher operating cost. The products such as corn and tapioca starches are some of the additional products carried out by KFMM, with the objective to improve the overall performance in the coming years.

PROSPECTS

Despite the fact that the world wheat prices and the ocean freight rates are anticipated to remain volatile, flour milling shall continue to remain as the core business of the Group. The continual effort in improving the efficiency and productivity is important for the Group to remain competitive in the industry. With the expected improvement of the Malaysian economy, and barring any major changes in the business environment, the Board is confident of achieving better results in the coming year.

ACKNOWLEDGEMENT

I would like to express my sincere appreciation and thanks to the Directors, management and staff for their dedication and hard work despite working in a very tough and competitive environment. I also wish to convey the Board's appreciation to all shareholders, customers, bankers, business associates and government authorities for their support and trust in the company. Lastly, since the last Annual General Meeting, Mr Prabir Mitra, the alternate director to Dato' Krishna Kumar a/l Sivasubramaniam and also the Chief Financial Officer has resigned from the Board on 1st November 2005. On Behalf of the Board, I would like to record its sincere appreciation to Mr Prabir Kumar Mitra for his invaluable contribution to the company during his tenure of services.

Thank you.

Dato' Abdul Halim bin Dato' Haji Abdul Rauf
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 transparency, 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 Committees. No sub-committees is recommended as the Board believes that all members must be equally responsible.

BOARD BALANCE

The Board currently has five (5) Directors, comprising two (2) Executives and three (3) Non-Executives. The Executive Directors implement the policies and decisions of the Board, oversee the operations and initiate business development efforts for the Group whilst the Non-Executive Directors bringing objective and independent judgement elements into decision making process of the Company. A brief profile of each Director is presented on page 14 of this Annual Report.

BOARD MEETINGS

During the financial year ended 31 March 2006, the Board met on five (5) occasions.

The number of Directors’ meetings and attendance of directors from their date of appointment for the financial year in view are as set out below :

Directors	Number of Board Meetings held during Tenure in office	Attendance
Dato’ Abdul Halim bin Haji Abdul Rauf (appointed 5 April 2005)	5	5
Dato’ Krishna Kumar a/l Sivasubramaniam (appointed on 25 May 2005)	3	3
Michael Camillus Fernandez (appointed 5 April 2005)	5	5
Dr. Shanmughanathan a/l Vellanthurai (appointed on 25 May 2005)	3	3
Ng Kay Eng (appointed 5 April 2005)	5	4

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 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 (cont'd)

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 Article 63 of the Articles of Association of the Company, one-third (1/3) of the Directors for the time being, or if their number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office at each annual general ("AGM") and be eligible to offer themselves for re-election provided always that all Directors shall retire from office at least once every three (3) years but shall be eligible 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.

In addition, pursuant to Article 68 of the Article of Association of the Company, any Directors who are appointed either to fill a casual vacancy or as an addition to the existing Directors, shall hold office only until the next AGM, and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotations at that meeting.

REMUNERATION PROCEDURE

The Board as a whole will serve as the Remuneration Committee for the Company. Based on the recommendation of the Board, all directors are provided with directors' fees except for the Executive Directors who is provided with a remuneration package based on his duties and responsibilities.

The aggregate directors' remuneration paid or payable or otherwise made available to all directors of the Company during the financial year ended 31 March 2006 are as follows:

	Executive	Non - Executive	Total
Salary and other emoluments	345.5	0.0	345.5
Pension costs – defined contribution plans	50.9	0.0	50.9
Fees	0.0	102.0	102.0
	396.4	102.0	498.4

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

	Executives	Non Executives
Below RM 50, 000	1	3
RM 50,001 to RM 100,000	–	–
RM 100,001 to RM 150,000	2	–
RM 150,001 to RM 200,000	–	–
RM 200,001 to RM 250,000	–	–
RM 250,001 to RM 300,000	–	–
RM 300,001 to RM 350,000	–	–
RM 350,001 to RM 400,000	–	–

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 to 12.

CORPORATE GOVERNANCE STATEMENT (cont'd)

SHAREHOLDERS

The Company values its dialogue with both institutional shareholders and private investors, and recognizes that timely and equal dissemination of relevant information to be provided to them. In this regards, it strictly adheres to the disclosure requirement of BMSB. Among others, information is communicated through the following:

- Announcement made to BMSB including Quarterly Results and Annual Results
- The Annual Reports
- Press Interview
- Analysts 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 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.

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 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.

CORPORATE GOVERNANCE STATEMENT (cont'd)

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

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 Receipts ("ADR") /Global Depository Receipt ("GDR") Programme Sponsored by the Company;
- Sanctions and /or Penalties;
- Non-audit fees were paid to the external auditors;
- Profit Estimate, Forecast or Projection;
- Profit Guarantee;
- Material Contracts except that the Company has converted the LC Murabahah facilities with Bank Islam Malaysia Berhad for the sum of RM8.0 millions to a 5 years Cash Note facility. The Company has commenced repayment since May 2006.
- Contracts Relating to Loan
- Revaluation of 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 2006.

The present members of the Audit Committee comprise :–

Dr. Shamughanathan a/l Vellathurai
(Chairman, Independent Non Executive Director)

Dato' Krishna Kumar a/l Sivasubramaniam
(Member, Non Independent, Executive Director)

Ng Kay Eng
(Member, Independent Non Executive Director)

MEETINGS

The Committee shall meet at least (4) times annually, or more frequently as circumstance dictate. As part of its 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.

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

Member	Number of Audit Committee Meetings held during Tenure in Office	Attendance
Dato' Krishna Kumar a/l Sivasubramaniam	4	4
Dr. Shanmughanathan a/l Vellanthurai	4	4
Ng Kay Eng	4	4

SUMMARY OF ACTIVITIES

The Audit Committee carried out the following activities during the financial year ended 31 March 2006:

- Reviewed financial statements including quarterly financial announcements to Bursa Malaysia Securities Berhad.
- 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 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 a member of the Audit Committee.

TERMS OF REFERENCE (CONT'D)

1) Membership (cont'd)

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 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 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 judgemental areas.

AUDIT COMMITTEE REPORT (cont'd)

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 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 reports.
- To review the effectiveness of internal control systems.

4. 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 time 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
- (iii) have full and unrestricted access to any information pertaining to the Group;
- (iv) have direct communication channel with external auditors and person(s) carrying out the internal function or activity(if any);
- (v) 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;
- (vi) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Group, whenever deemed necessary ; and
- (vii) 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' investment 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 acknowledges their responsibility for the Group's system of internal control to safeguard shareholders' investment 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 design 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 AND INTERNAL AUDIT

The Board recognizes that the management of principal risks plays an important and integral part of the Group's daily operation and that the identification and the management of such risk will affect the achievement of the Group's objective. The Executive Directors report 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 Department has been established since May 2004 and is independent of the activities or operations of the operating units. The Audit Committee will be responsible for reviewing and approving annual internal audit plans and resources to ensure that the internal auditor has the necessary resources to adequately perform its function. However, from June 2006 the Company has decided to appoint external independent firm to perform the function of the internal auditors, to elevate and improve the efficiency of the Group.

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 Directors 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 29 August 2006.

BOARD OF DIRECTORS

Dato' Abdul Halim Bin Dato' Haji Abdul Rauf, aged 68, holds a Bachelor of Arts degree from the University of Malaya and Master degree in Public and International Affairs from University of Pittsburgh USA. Before joining the private sector, he held key positions in government authorities and agencies. 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 Smallholders Department Authority. He has vast experience in the management and strategic business planning. Dato' Halim is the Executive Deputy Chairman of Hil Industries Berhad and A & M Realty Berhad and the Chairman of MIDF Consultancy and Corporate Service Sdn Bhd and Kontena Nasional Global Logistics Sdn Bhd and Chairman of 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 major shareholder of the Company. He has not been convicted for any criminal offences within the past ten years.

Dato' Krishna Kumar a/l Sivasubramaniam, aged 36, is a graduate from the University College of Wales, Aberystwyth. He started his career as a Project Coordinator of the Radisson Hotels, charged with overseeing the setting up of various hotels in Malaysia, Indonesia and Sri Lanka. Subsequently, he was attached with Sri Ram & Co as an Advocate and Solicitor and eventually set up his own practice under the name of Krish Maniam & Co in 1996. He is also an Independent Director of MP Technology Resources Berhad and President of Atduro Capital Ltd.

Dato' Krishna does not 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.

Michael Camillus Fernandez, Executive Director, aged 33, began as a young entrepreneur in Event Management with Retro Production Enterprise, now known as Retro Production (M) Sdn Bhd where he is the Managing Director and a substantial shareholder. He has been in Marketing for several years and in 2003 was appointed as Director (Marketing) of TKC Manufacturing Ventures Sdn Bhd, a company manufacturing furniture for export. As Executive Director of KFMB he oversees and is involved in Sales and Marketing.

Mr Fernandez does not have any family relationship with any director of the Company, nor conflict of interest with the Company. But he has family relationship with a substantial shareholder of the Company. He has not been convicted for any criminal offences within the past ten years.

Dr. Shanmughanathan A/L Vellanthurai (MIA 11218), aged 40, obtained his Bachelor of Accountancy Degree from University Utara Malaysia in 1993 and Masters in Business Administration from University Putra Malaysia in 1998. He is a member of Malaysia Institute of Accountants and Malaysian Institute of Taxation. He started his career with Messrs. Ernst & Young International in 1993. In 1997 he started his own Audit Firm known as Shan & Co. He is also an Independent Director of Kamdar Group Berhad.

Dr Shan does not 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, aged 42, 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.

Mr Ng does not 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.

FINANCIAL STATEMENTS

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 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are flour milling and trading in its related products.

The principal activities of the subsidiaries are transportation and sales of premix flour and its related products.

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

RESULTS

	Group RM	Company RM
Net loss for the year	(4,144,903)	(4,606,432)

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 dividends 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:

Michael Camillus Fernandez
 Dato' Abdul Halim bin Dato' Haji Abdul Rauf
 Ng Kay Eng
 Dato' Krishna Kumar a/l Sivasubramaniam
 Dr. Shanmughanathan a/l Vellanthurai
 Prabir Kumar Mittra (alternate to Dato' Krishna Kumar a/l Sivasubramaniam) (resigned on 1 November 2005)

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 as may arise from the share options to be granted pursuant to 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 as shown in Note 7 to the financial statements or the fixed salary of a full-time employee of the Company) 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' REPORT (cont'd)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM1 Each			
	1 April 2005	Acquired	Sold	31 March 2006

The Company

Direct Interest:

Michael Camillus Fernandez	–	545,600	–	545,600
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None of the other 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.

EMPLOYEES' SHARE OPTIONS SCHEME

The Company implemented an Employees' Share Option Scheme ("ESOS") which had been approved by the shareholders on 21 November 2000. The 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.
- (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.

DIRECTORS' REPORT (cont'd)

OTHER STATUTORY INFORMATION (CONT'D)

- (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.

SIGNIFICANT EVENTS

The significant event during the year is as disclosed in Note 26 to the financial statements.

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.

**DATO' KRISHNA KUMAR A/L
SIVASUBRAMANIAM**

MICHAEL CAMILLUS FERNANDEZ

Kuantan, Pahang Darul Makmur, Malaysia
26 July 2006

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

We, DATO' KRISHNA KUMAR A/L SIVASUBRAMANIAM and MICHAEL CAMILLUS FERNANDEZ, 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 48 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2006 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.

**DATO' KRISHNA KUMAR A/L
SIVASUBRAMANIAM**

MICHAEL CAMILLUS FERNANDEZ

Kuantan, Pahang Darul Makmur, Malaysia
26 July 2006

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 48 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 Kuala Lumpur in
the state of Wilayah Persekutuan
on 26 July 2006

SIEW KIN MENG

Before me,
Soh Ah Kau, AMN
Commissioner for Oaths
W315

REPORT OF THE AUDITORS

to the Members of Kuantan Flour Mills Berhad

We have audited the financial statements set out on pages 21 to 48. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 March 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and 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.

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

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

ERNST & YOUNG
AF: 0039
Chartered Accountants

DUAR TUAN KIAT
No. 1894/03/08 (J/PH)
Partner

Kuantan, Pahang Darul Makmur, Malaysia
26 July 2006

INCOME STATEMENTS

For the year ended 31 March 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	3	75,160,875	78,790,247	71,458,951	75,936,802
Cost of sales	4	(71,500,006)	(78,144,306)	(69,357,211)	(76,242,433)
Gross profit/(loss)		3,660,869	645,941	2,101,740	(305,631)
Other operating income		291,708	282,044	254,350	125,890
Administrative expenses		(6,363,036)	(5,422,467)	(5,057,622)	(6,088,105)
Selling expenses		(1,000,469)	(2,076,383)	(1,000,469)	(2,076,383)
Loss from operations	5	(3,410,928)	(6,570,865)	(3,702,001)	(8,344,229)
Finance costs, net	8	(913,087)	(893,590)	(904,431)	(871,560)
Loss before taxation		(4,324,015)	(7,464,455)	(4,606,432)	(9,215,789)
Taxation	9	179,112	(99,711)	–	–
Loss after taxation		(4,144,903)	(7,564,166)	(4,606,432)	(9,215,789)
Minority interests		–	–	–	–
Net loss for the year		(4,144,903)	(7,564,166)	(4,606,432)	(9,215,789)
Loss per share (sen):					
Basic	10(a)	(9.20)	(16.79)		
Diluted	10(b)	–	–		

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

BALANCE SHEETS

As at 31 March 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
NON-CURRENT ASSETS					
Property, plant and equipment	11	23,141,636	24,728,547	22,570,044	24,310,792
Investments in subsidiaries	12	–	–	8	162,008
Other investments	13	1,458,916	1,735,500	1,458,916	1,735,500
Deferred tax assets	14	497,349	312,660	–	–
		<u>25,097,901</u>	<u>26,776,707</u>	<u>24,028,968</u>	<u>26,208,300</u>
CURRENT ASSETS					
Inventories	15	11,485,506	11,724,230	9,841,938	11,137,259
Trade receivables	16	23,515,865	16,343,420	25,064,340	13,132,943
Other receivables	17	2,521,463	1,179,612	2,291,264	4,332,915
Marketable securities	18	495,683	16,677	16,677	16,677
Cash and bank balances	19	2,042,309	3,000,629	1,182,620	2,619,974
		<u>40,060,826</u>	<u>32,264,568</u>	<u>38,396,839</u>	<u>31,239,768</u>
CURRENT LIABILITIES					
Borrowings	20	23,141,879	16,844,430	22,961,930	16,707,936
Trade payables	22	8,051,632	5,206,863	7,338,090	4,509,641
Other payables	23	2,677,200	1,759,219	1,950,706	1,673,714
		<u>33,870,711</u>	<u>23,810,512</u>	<u>32,250,726</u>	<u>22,891,291</u>
NET CURRENT ASSETS					
		<u>6,190,115</u>	<u>8,454,056</u>	<u>6,146,113</u>	<u>8,348,477</u>
		<u>31,288,016</u>	<u>35,230,763</u>	<u>30,175,081</u>	<u>34,556,777</u>
FINANCED BY:					
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		(20,689,776)	(16,544,873)	(21,800,810)	(17,194,378)
		<u>30,810,157</u>	<u>34,955,060</u>	<u>29,699,123</u>	<u>34,305,555</u>
Shareholders' equity		2	2	–	–
Minority interests					
		<u>30,810,159</u>	<u>34,955,062</u>	<u>29,699,123</u>	<u>34,305,555</u>
Borrowings	20	477,857	275,701	475,958	251,222
		<u>31,288,016</u>	<u>35,230,763</u>	<u>30,175,081</u>	<u>34,556,777</u>

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2006

	Note	Capital RM	Premium RM	Losses RM	Total RM
GROUP					
At 1 April 2004		44,983,000	6,436,433	(8,980,707)	42,438,726
Issuance of ordinary shares pursuant to ESOS	24	70,000	10,500	–	80,500
Net loss for the year		–	–	(7,564,166)	(7,564,166)
At 31 March 2005		45,053,000	6,446,933	(16,544,873)	34,955,060
At 1 April 2005		45,053,000	6,446,933	(16,544,873)	34,955,060
Net loss for the year		–	–	(4,144,903)	(4,144,903)
At 31 March 2006		45,053,000	6,446,933	(20,689,776)	30,810,157
COMPANY					
At 1 April 2004		44,983,000	6,436,433	(7,978,589)	43,440,844
Issuance of ordinary shares pursuant to ESOS	24	70,000	10,500	–	80,500
Net loss for the year		–	–	(9,215,789)	(9,215,789)
At 31 March 2005		45,053,000	6,446,933	(17,194,378)	34,305,555
At 1 April 2005		45,053,000	6,446,933	(17,194,378)	34,305,555
Net loss for the year		–	–	(4,606,432)	(4,606,432)
At 31 March 2006		45,053,000	6,446,933	(21,800,810)	29,699,123

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

CASH FLOW STATEMENTS

For the year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before taxation	(4,324,015)	(7,464,455)	(4,606,432)	(9,215,789)
Adjustments for:				
Depreciation	2,802,551	2,876,401	2,684,206	2,710,939
Gain on disposal of property, plant and equipment	(22,998)	(40,823)	(5,999)	(40,823)
Gain on disposal of marketable securities	(37,978)	–	–	–
Gain on disposal of investment	–	(143)	–	143
Property, plant and equipment written off	11,640	1	11,640	1
Provision for doubtful debts	191,736	1,689,126	1,011,590	3,167,423
Inventories written off	–	16,016	–	–
Provision for diminution in value of investments	463,992	–	738,584	99,999
Short term accumulating compensated absences	13,799	73,010	–	63,785
Interest income	(9,589)	(62,970)	(9,589)	(62,970)
Interest expense	922,676	956,560	914,020	934,530
Operating profit/(loss) before working capital changes	11,814	(1,957,277)	738,020	(2,343,048)
Decrease in inventories	238,724	2,654,978	1,295,321	2,676,392
(Increase)/Decrease in receivables	(8,706,032)	4,789,454	(11,201,336)	5,940,787
Increase in payables	3,743,374	2,480,233	3,105,441	2,263,342
Cash (used in)/generated from operations	(4,712,120)	7,967,388	(6,062,554)	8,537,473
Interest paid	(922,676)	(956,560)	(914,020)	(934,530)
Taxes paid	–	(7,280)	–	(7,280)
Net cash (used in)/generated from operating activities	(5,634,796)	7,003,548	(6,976,574)	7,595,663
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(722,182)	(268,112)	(449,999)	(255,512)
Proceeds from disposal of property, plant and equipment	23,000	40,826	6,000	40,826
Proceeds from disposal of marketable securities	641,144	2,143	–	2,143
Purchase of marketable securities	(1,269,580)	(16,677)	–	(16,677)
Interest received	9,589	62,970	9,589	62,970
Net cash used in investing activities	(1,318,029)	(178,850)	(434,410)	(166,250)

CASH FLOW STATEMENTS (cont'd)

For the year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of term loans	–	(1,098,682)	–	(1,098,682)
Proceeds from exercise of ESOS	–	80,500	–	80,500
Payment of hire purchase instalments	(330,200)	(344,902)	(299,953)	(294,136)
Proceeds from/(Repayment of) short term borrowings	6,273,583	(10,402,914)	6,273,583	(10,402,914)
Net cash generated from/(used in) financing activities	5,943,383	(11,765,998)	5,973,630	(11,715,232)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,009,442)	(4,941,300)	(1,437,354)	(4,285,819)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	2,900,602	7,841,902	2,619,974	6,905,793
CASH AND CASH EQUIVALENTS END OF YEAR (NOTE 19)	1,891,160	2,900,602	1,182,620	2,619,974

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

1. CORPORATE INFORMATION

The principal activities of the Company are flour milling and trading in its related products. The principal activities of the subsidiaries are transportation and sales of premix flour and its related products. There have been no significant changes in the nature of the principal activities during the financial year.

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

The number of employees in the Group and in the Company at the end of the financial year were 188 (2005: 187) and 120 (2005: 160) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 July 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared under the historical cost convention.

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(B) BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiaries are measured at their fair values at the date of acquisition. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(C) INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(m).

On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(D) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(m).

Freehold land and building under construction are not depreciated. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings, factory and civil works	2 ^{1/2} %	-	5%
Plant and machinery	5%	-	10%
Equipment and fixtures	10%	-	20%
Motor vehicles			20%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(E) INVENTORIES

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

(i) Raw Materials

The cost of raw materials comprises costs of purchase and is determined using the first in, first out method.

(ii) Work-In-Progress and Finished Goods

The costs of finished goods and work-in-progress comprise raw materials, direct labour, other direct costs and appropriate proportions of production overheads, which are determined on the weighted average basis.

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

(F) CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(G) LEASES

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

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(d).

(H) PROVISIONS FOR LIABILITIES

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(I) INCOME TAX

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(J) EMPLOYEE BENEFITS

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Equity compensation benefits

The Kuantan Flour Mills Berhad Employees' Share Options Scheme ("ESOS") allows the Group's employees to acquire ordinary shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(K) REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

(ii) Revenue from services

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

(L) FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items are initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These exchange differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

	2006	2005
	RM	RM
United States Dollars	3.750	3.805
Singapore Dollars	2.275	2.300

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(M) IMPAIRMENT OF ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately.

(N) FINANCIAL INSTRUMENTS

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

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

(i) Other Non-Current Investments

Non-current investments other than investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(m).

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

(ii) Marketable Securities

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

(iii) Receivables

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

(iv) Payables

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

(v) Interest-Bearing Borrowings

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

All borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(vi) Equity Instruments

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

3. REVENUE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sales of flour and related products	73,824,753	77,203,937	71,458,951	75,936,802
Transport income	1,298,144	1,586,310	–	–
Gain on disposal of marketable securities	37,978	–	–	–
	75,160,875	78,790,247	71,458,951	75,936,802

4. COST OF SALES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cost of inventories sold	70,546,355	76,617,145	69,357,211	76,242,433
Cost of services rendered	953,651	1,527,161	–	–
	71,500,006	78,144,306	69,357,211	76,242,433

5. LOSS FROM OPERATIONS

Loss from operations is stated after charging/(crediting):

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Depreciation	2,802,551	2,876,401	2,684,206	2,710,939
Auditors' remuneration	39,000	39,000	30,000	30,000
Provision for doubtful debts	191,736	1,689,126	1,011,590	3,167,423
Provision for diminution in value of investment	463,992	–	738,584	99,999
Staff costs (Note 6)	4,928,544	4,298,059	3,720,368	3,821,047
Directors' fee (Note 7)	102,000	50,000	102,000	50,000
Property, plant and equipment written off	11,640	1	11,640	1
Inventories written off	–	16,016	–	–
Rental of land and buildings	458,948	420,177	458,948	420,117
Insurance compensation	–	(13,000)	–	(13,000)
Provision for doubtful debts no longer required	(245,331)	–	(245,331)	–
Bad debts recovered	–	(16,677)	–	(16,677)
Gross dividend received from quoted investments	–	(72)	–	(72)
Gain on disposal of investment	–	(143)	–	(143)
Realised loss/(gain) on foreign exchange	14,146	(73,314)	36,069	(55,176)
Gain on disposal of property, plant and equipment	(22,998)	(40,823)	(5,999)	(40,823)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

6. STAFF COSTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Salaries and wages	4,027,729	3,532,194	3,002,130	3,136,143
Social security costs	51,821	46,928	35,938	40,958
Short term accumulating compensated absences	13,799	73,010	–	63,785
Pension costs - defined contribution plans	441,032	466,646	316,757	417,272
Other staff related expenses	394,163	179,281	365,543	162,889
	4,928,544	4,298,059	3,720,368	3,821,047

Included in staff costs of the Group and of the Company are executive directors' remuneration amounting to RM396,402 (2005: RM288,240) and RM314,866 (2005: RM288,240) respectively as further disclosed in Note 7.

7. DIRECTORS' REMUNERATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
DIRECTORS OF THE COMPANY				
Executive:				
Salaries and other emoluments	345,506	216,000	272,706	216,000
Pension costs - defined contribution plans	50,896	72,240	42,160	72,240
	396,402	288,240	314,866	288,240
Non-Executive:				
Fees	102,000	50,000	102,000	50,000
	498,402	338,240	416,866	338,240

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

	Number of Directors	
	2006	2005
Executive directors:		
Below RM50,000	1	–
RM50,001 – RM100,000	–	–
RM100,001 – RM150,000	2	–
RM150,001 – RM200,000	–	–
RM200,001 – RM250,000	–	–
RM250,001 – RM300,000	–	1
Non-Executive directors:		
Below RM50,000	3	4

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

7. DIRECTORS' REMUNERATION (CONT'D)

DIRECTORS OF THE COMPANY (CONT'D)

Executive directors of the Company have been granted the following number of options under the Employee's Share Options Scheme ("ESOS"):

	Group and Company	
	2006	2005
At 1 April	175,000	244,000
Exercised	–	(69,000)
Lapsed	(175,000)	–
At 31 March	–	175,000

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 24).

8. FINANCE COSTS, NET

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest expense	922,676	956,560	914,020	934,530
Interest income	(9,589)	(62,970)	(9,589)	(62,970)
	913,087	893,590	904,431	871,560

9. TAXATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Income tax:				
Malaysian income tax	5,577	–	–	–
Deferred tax (Note 14):				
Relating to origination and reversal of temporary differences	(179,776)	129,611	–	–
Overprovided in prior years	(4,913)	(29,900)	–	–
	(184,689)	99,711	–	–
	(179,112)	99,711	–	–

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

9. TAXATION (CONT'D)

With effect from year of assessment 2004, the corporate tax rates for companies with paid up capital of RM2.5 million and below at the beginning of the basis period for the year of assessment are as follows:

Chargeable income	Rate
First RM500,000	20%
Amount exceeding RM500,000	28%

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

	2006 RM	2005 RM
Group		
Loss before taxation	(4,324,015)	(7,464,455)
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	(1,210,723)	(2,090,047)
Effect of income subject to tax rate of 20%	(2,231)	–
Effect of income not subject to tax	(307)	(43,723)
Effect of expenses not deductible for tax purposes	342,033	662,071
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	(83,138)	–
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	780,167	1,601,310
Over provision of deferred tax in prior years	(4,913)	(29,900)
Tax expense for the year	(179,112)	99,711
Company		
Loss before taxation	(4,606,432)	(9,215,789)
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	(1,289,801)	(2,580,421)
Effect of expenses not deductible for tax purposes	631,467	1,089,600
Utilisation of previously unrecognised unabsorbed capital allowances	(71,950)	–
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	730,284	1,490,821
	–	–

Tax savings during the financial year arising from:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Utilisation of tax losses brought forward from previous years	–	18,742	–	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

10. LOSS PER SHARE

(A) BASIC

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of ordinary shares in issue during the financial year.

	2006	2005
Net loss for the year (RM)	(4,144,903)	(7,564,166)
Weighted average number of ordinary shares in issue (unit)	45,053,000	45,043,548
Basic loss per share (sen)	(9.20)	(16.79)

(B) DILUTED

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

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land RM	Buildings, Factory and Civil Works RM	Plant and Machinery RM	Equipment and Fixtures RM	Motor Vehicles RM	Building under Construction RM	Total RM
GROUP							
Cost							
At 1 April 2005	11,700	9,716,158	36,925,175	3,743,147	8,154,520	70	58,550,770
Additions	-	7,670	41,416	566,015	600,877	11,304	1,227,282
Disposals	-	-	-	-	(152,978)	-	(152,978)
Write off	-	-	(26,600)	-	(302,417)	-	(329,017)
Reclassification	-	(11,870)	11,870	-	-	-	-
Adjustments	-	-	(399)	70	(119)	-	(448)
At 31 March 2006	11,700	9,711,958	36,951,462	4,309,232	8,299,883	11,374	59,295,609
Accumulated Depreciation							
At 1 April 2005	-	3,623,312	20,155,360	2,870,406	7,173,145	-	33,822,223
Depreciation charge for the year	-	254,660	1,939,418	183,217	425,256	-	2,802,551
Disposals	-	-	-	-	(152,976)	-	(152,976)
Write off	-	-	(14,962)	-	(302,415)	-	(317,377)
Adjustments	-	-	(399)	70	(119)	-	(448)
At 31 March 2006	-	3,877,972	22,079,417	3,053,693	7,142,891	-	36,153,973
Net Book Value							
At 31 March 2006	11,700	5,833,986	14,872,045	1,255,539	1,156,992	11,374	23,141,636
At 31 March 2005	11,700	6,092,846	16,769,815	872,741	981,375	70	24,728,547
Details at 1 April 2004							
Cost	11,700	9,691,608	36,757,122	3,671,912	8,190,313	70	58,322,725
Accumulated depreciation	-	3,367,844	18,218,966	2,685,527	6,904,874	-	31,177,211
Depreciation charge for 2005	-	255,468	1,936,394	184,879	499,660	-	2,876,401

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

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

	Freehold Land RM	Buildings, Factory and Civil Works RM	Plant and Machinery RM	Equipment and Fixtures RM	Motor Vehicles RM	Building under Construction RM	Total RM
COMPANY							
Cost							
At 1 April 2005	11,700	9,596,529	36,587,751	3,615,077	5,666,632	70	55,477,759
Additions	-	7,670	41,416	314,992	579,717	11,304	955,099
Disposals	-	-	-	-	(33,728)	-	(33,728)
Write off	-	-	(26,600)	-	(302,417)	-	(329,017)
Reclassification	-	(11,870)	11,870	-	-	-	-
Adjustments	-	-	(399)	70	(119)	-	(448)
At 31 March 2006	11,700	9,592,329	36,614,038	3,930,139	5,910,085	11,374	56,069,665
Accumulated Depreciation							
At 1 April 2005	-	3,553,681	19,959,289	2,776,216	4,877,781	-	31,166,967
Depreciation charge for the year	-	248,679	1,922,546	174,035	338,946	-	2,684,206
Disposals	-	-	-	-	(33,727)	-	(33,727)
Write off	-	-	(14,962)	-	(302,415)	-	(317,377)
Adjustments	-	-	(399)	70	(119)	-	(448)
At 31 March 2006	-	3,802,360	21,866,474	2,950,321	4,880,466	-	33,499,621
Net Book Value							
At 31 March 2006	11,700	5,789,969	14,747,564	979,818	1,029,619	11,374	22,570,044
At 31 March 2005	11,700	6,042,848	16,628,462	838,861	788,851	70	24,310,792
Details at 1 April 2004							
Cost	11,700	9,571,979	36,419,698	3,543,842	5,715,025	70	55,262,314
Accumulated depreciation	-	3,304,194	18,039,767	2,595,625	4,747,831	-	28,687,417
Depreciation charge for 2005							
	-	249,487	1,919,522	180,591	361,339	-	2,710,939

- (a) The factory is a flour mill constructed on a land leased by Novation Agreement between Kuantan Port Authority, Kuantan Port Consortium Sdn. Bhd. and the Company. The total rental commitment payable under the lease as at year-end are as follows:

	Group and Company	
	2006	2005
	RM	RM
Not later than 1 year	83,775	316,412
Later than 1 year and not later than 5 years	595,446	679,221
Later than 5 years	260,508	260,508
	939,729	1,256,141

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

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

- (b) During the financial year, the Group and the Company acquired property, plant and equipment at aggregate costs of RM1,227,282 (2005: RM459,438) and RM955,099 (2005: RM446,838) respectively of which RM505,100 (2005: RM191,326) and RM505,100 (2005: RM191,326) respectively were acquired by means of hire purchase arrangements. Net book value of property, plant and equipment held under hire purchase arrangements is as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Motor vehicles	885,701	868,311	843,180	771,650

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares, at cost	1,911,006	1,611,006
Less: Accumulated impairment losses	(1,910,998)	(1,448,998)
	8	162,008

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Equity Interest Held (%)		Principal Activities
		2006	2005	
* KFM Transport Sdn. Bhd.	Malaysia	100	100	Transportation
* KFM Marketing Sdn. Bhd.	Malaysia	95	95	Sales of premix flour and its related products
KFM Trading Sdn. Bhd.	Malaysia	100	100	Investment Holding
KFM Ventures Sdn. Bhd.	Malaysia	100	100	Dormant
KFM Technology Sdn. Bhd.	Malaysia	100	100	Dormant
KFM Industries Sdn. Bhd.	Malaysia	100	100	Dormant
KFM-Bunge Flour Mixes Sdn. Bhd.	Malaysia	60	60	Dormant

- * Subsidiary with auditors' report that refer to the going concern assumptions being dependent upon the financial support from holding company. This report is not qualified.

The Company has given written assurance that it will continue to provide financial support to its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

13. OTHER INVESTMENTS

	Group and Company	
	2006 RM	2005 RM
Unquoted shares, at cost	1,735,500	1,735,500
Less: Accumulated impairment losses	(276,584)	–
	<u>1,458,916</u>	<u>1,735,500</u>

14. DEFERRED TAX

	Group	
	2006 RM	2005 RM
At 1 April	(312,660)	(412,371)
Recognised in income statement (Note 9)	(184,689)	99,711
At 31 March	<u>(497,349)</u>	<u>(312,660)</u>
Presented after appropriate offsetting as follows:		
Deferred tax assets	(499,149)	(312,660)
Deferred tax liabilities	1,800	–
	<u>(497,349)</u>	<u>(312,660)</u>

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities of the Group:

	Property, Plant and Equipment RM
At 1 April 2005	–
Recognised in income statement	<u>1,800</u>
At 31 March 2006	<u>1,800</u>
At 1 April 2004	–
Recognised in income statement	<u>–</u>
At 31 March 2005	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

14. DEFERRED TAX (CONT'D)

Deferred Tax Assets of the Group:

	Other Payables RM	Tax Losses and Unabsorbed Capital Allowances RM	Total RM
At 1 April 2005	(1,730)	(310,930)	(312,660)
Recognised in income statement	(3,864)	(182,625)	(186,489)
At 31 March 2006	(5,594)	(493,555)	(499,149)
At 1 April 2004	–	(412,371)	(412,371)
Recognised in income statement	(1,730)	101,441	99,711
At 31 March 2005	(1,730)	(310,930)	(312,660)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Unused tax losses	15,963,000	11,749,000	14,584,000	10,442,000
Unabsorbed capital allowances	1,743,000	1,685,000	–	–
	17,706,000	13,434,000	14,584,000	10,442,000

The unused tax losses and unabsorbed capital allowances are available indefinitely for offset against future taxable profits of the Company and its subsidiaries in which those items arose. Deferred tax assets have not been recognised in respect of these items as they may not be used to offset taxable profits of other subsidiaries in the Group and the Company and its subsidiaries have incurred loss in the current financial year and have a recent history of losses.

15. INVENTORIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cost				
Raw materials	7,433,372	8,120,576	7,433,372	8,120,576
Finished goods	2,371,768	1,823,501	728,200	1,236,530
By-products	747	117,781	747	117,781
Work-in-progress	297,260	261,748	297,260	261,748
Consumables	1,382,359	1,400,624	1,382,359	1,400,624
	11,485,506	11,724,230	9,841,938	11,137,259

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

16. TRADE RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade receivables	26,251,613	19,132,763	3,968,778	15,901,248
Due from subsidiaries	–	–	23,810,272	–
	26,251,613	19,132,763	27,779,050	15,901,248
Less: Provision for doubtful debts	(2,735,748)	(2,789,343)	(2,714,710)	(2,768,305)
	23,515,865	16,343,420	25,064,340	13,132,943

The Group's normal trade credit term ranges from 14 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

As at 31 March 2006, 32% and 22% (2005: 42% and 52%) trade receivables of the Group and of the Company respectively are owed by 3 (2005: 6) customers.

17. OTHER RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Due from subsidiaries	–	–	4,485,301	6,808,470
Deposits	820,143	104,736	757,990	104,736
Prepayments	269,846	361,055	217,935	294,671
Tax recoverable	121,932	121,932	88,218	88,218
Other receivables	1,309,542	621,889	958,377	463,523
	2,521,463	1,209,612	6,507,821	7,759,618
Less: Provision for doubtful debts	–	(30,000)	(4,216,557)	(3,426,703)
	2,521,463	1,179,612	2,291,264	4,332,915

The amounts due from subsidiaries are unsecured advances, which are interest free and with no fixed terms of repayment.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

18. MARKETABLE SECURITIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Shares quoted in Malaysia, at cost	683,091	16,677	16,677	16,677
Less: Provision for diminution in value	(187,408)	–	–	–
	495,683	16,677	16,677	16,677
Market value of quoted shares	489,006	15,584	10,000	15,584

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cash on hand and at banks	1,490,842	2,374,162	631,153	1,993,507
Deposits with licensed banks	551,467	626,467	551,467	626,467
Cash and bank balances	2,042,309	3,000,629	1,182,620	2,619,974
Bank overdrafts (Note 20)	(151,149)	(100,027)	-	-
Cash and cash equivalents	1,891,160	2,900,602	1,182,620	2,619,974

Deposits with licensed banks of the Group and of the Company amounting to RM551,467 (2005: RM626,467) are pledged to bank as security for bank guarantee purposes.

The weighted average effective interest rates of deposits at the balance sheet date were as follows:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Licensed banks	3.70	3.70	3.70	3.70

The average maturity periods of deposits as at the end of the financial year were as follows:

	Group		Company	
	2006 Days	2005 Days	2006 Days	2005 Days
Licensed banks	365	365	365	365

20. BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Short Term Borrowings				
Secured:				
Bank overdrafts	151,149	100,027	-	-
Bankers' acceptances	22,679,939	16,406,356	22,679,939	16,406,356
Hire purchase payables (Note 21)	310,791	338,047	281,991	301,580
	23,141,879	16,844,430	22,961,930	16,707,936
Long Term Borrowings				
Secured:				
Hire purchase payables (Note 21)	477,857	275,701	475,958	251,222

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

20. BORROWINGS (CONT'D)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Total Borrowings				
Bank overdrafts (Note 19)	151,149	100,027	–	–
Bankers' acceptance	22,679,939	16,406,356	22,679,939	16,406,356
Hire purchase payables (Note 21)	788,648	613,748	757,949	552,802
	<u>23,619,736</u>	<u>17,120,131</u>	<u>23,437,888</u>	<u>16,959,158</u>
 Maturity of borrowings (excluding hire purchase payables):				
Within one year	22,831,088	16,506,383	22,679,939	16,406,356
More than 1 year and less than 2 years	–	–	–	–
	<u>22,831,088</u>	<u>16,506,383</u>	<u>22,679,939</u>	<u>16,406,356</u>

The weighted average effective interest rates at the balance sheet date for borrowings, excluding hire purchase payables, were as follows:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Bank overdrafts	8.75	8.0	–	–
Bankers' acceptances	3.2	3.2	3.2	3.2

The secured bank overdrafts and bankers' acceptances of the Group and of the Company are secured by corporate guarantee by the Company and a negative pledge on the assets of the Company.

21. HIRE PURCHASE PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Minimum payments:				
Not later than 1 year	351,418	340,645	322,618	302,070
Later than 1 year and not later than 2 years	195,287	243,285	185,095	214,485
Later than 2 years and not later than 5 years	295,556	100,716	295,556	90,524
Later than 5 years	46,365	–	46,365	–
	<u>888,626</u>	<u>684,646</u>	<u>849,634</u>	<u>607,079</u>
Less: Future finance charges	(99,978)	(70,898)	(91,685)	(54,277)
Present value of hire purchase liabilities	<u>788,648</u>	<u>613,748</u>	<u>757,949</u>	<u>552,802</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

21. HIRE PURCHASE PAYABLES (CONT'D)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Present value of hire purchase liabilities:				
Not later than 1 year	310,791	338,047	281,991	301,580
Later than 1 year and not later than 2 years	165,570	225,188	163,671	202,608
Later than 2 years and not later than 5 years	268,428	50,513	268,428	48,614
Later than 5 years	43,859	–	43,859	–
	788,648	613,748	757,949	552,802
Analysed as:				
Due within 12 months (Note 20)	310,791	338,047	281,991	301,580
Due after 12 months (Note 20)	477,857	275,701	475,958	251,222
	788,648	613,748	757,949	552,802

The hire purchase liabilities bore interest at the balance sheet date at rates between 4.56% to 11.01% (2005: 4.56% to 11.01%) per annum.

22. TRADE PAYABLES

The normal trade credit term granted to the Group ranges from 30 to 90 days.

23. OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Deposits	91,265	91,265	91,265	91,265
Accruals	1,116,145	889,603	800,480	747,258
Other payables	1,469,790	778,351	1,058,961	835,191
	2,677,200	1,759,219	1,950,706	1,673,714

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

24. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2006	2005	2006 RM	2005 RM
Authorised	50,000,000	50,000,000	50,000,000	50,000,000
Issued and fully paid				
At 1 April	45,053,000	44,983,000	45,053,000	44,983,000
Issued during the year pursuant to ESOS	–	70,000	–	70,000
At 31 March	45,053,000	45,053,000	45,053,000	45,053,000

Employees' Share Option Scheme ("ESOS")

The Company implemented an Employees' Share Option Scheme ("ESOS") which had been approved by the shareholders on 21 November 2000.

The salient features of the ESOS are as follows:

- (i) In aggregate, the maximum number of new shares which may be allotted pursuant to the exercise option granted under this scheme shall not exceed 10% of the issued and paid up shares of the Company at any point of time during the existence of this scheme.
- (ii) The option price under the ESOS shall be higher of the five days weighted average market price of the shares as shown in the Daily Official List issued by the Bursa Malaysia Securities Berhad preceding the date of offer set at a discount of not more than 10% or the par value of the shares.
- (iii) The Options granted may be exercised at any time before the expiry of the ESOS on 15 April 2006.
- (iv) The persons to whom the Options have been granted have no right to participate by virtue of the Options in any share issue of any other company.

The terms of share options outstanding as at the end of the financial year are as follows:

Grant Date	Expiry Date	Exercise Price RM	Number of Share Options				
			At 1 April '000	Granted '000	Exercised '000	Lapsed '000	At 31 March '000
2006							
16 April 2001	15 April 2006	1.15	86	–	–	(56)	30
19 Dec 2002	15 April 2006	1.15	21	–	–	(13)	8
16 July 2003	15 April 2006	1.92	1,340	–	–	(479)	861
			1,447	–	–	(548)	899

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

24. SHARE CAPITAL (CONT'D)

Grant Date	Expiry Date	Exercise Price RM	← Number of Share Options →				At 31 March '000
			At 1 April '000	Granted '000	Exercised '000	Lapsed '000	
2005							
16 April 2001	15 April 2006	1.15	147	–	(60)	(1)	86
19 Dec 2002	15 April 2006	1.15	31	–	(10)	–	21
16 July 2003	15 April 2006	1.92	1,539	–	–	(199)	1,340
			1,717	–	(70)	(200)	1,447

Number of share options vested:

	Group	
	2006 RM	2005 RM
At 1 April	1,447	1,717
At 31 March	899	1,447

Details relating to options exercised in the previous year are as follows:

Exercise Date	Exercise Price RM	Fair Value of Ordinary Shares RM	Number of Share Options '000	Considerations Received RM'000
2005				
April 2004	1.15	1.73	70	81
Less: Par value of ordinary shares				(70)
Share premium				11

25. SIGNIFICANT RELATED PARTY TRANSACTIONS

	Company	
	2006 RM	2005 RM
Sales of premix to a subsidiary, KFM Marketing Sdn. Bhd.	50,736,885	10,900,067
Purchase of premix flour from a subsidiary, KFM Marketing Sdn. Bhd.	(57,723)	(124,539)
Distribution expenses from a subsidiary, KFM Transport Sdn. Bhd.	(1,010,819)	(1,827,938)

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

26. SIGNIFICANT EVENT

On 30 November 2005, PM Securities Sdn. Bhd., on behalf of the Board of Directors of Kuantan Flour Mills Berhad announced that the Company proposed to implement a private placement of up to 10% of the issued and paid-up share capital of the Company. The Company proposed to issue up to 4,505,300 new ordinary shares of RM1 each representing approximately 10% of existing issued and paid up share capital of the Company of RM45,053,000 comprising 45,053,000 ordinary shares of RM1 each as at 15 November 2005. On 14 April 2006, Bursa Malaysia has approved the proposed private placement. It will expire on 14 August 2006. The Company is requesting for extension of the expiry date.

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing debts and assets. The investments in financial assets are mainly short term in nature and have been mostly placed in fixed deposits or marketable securities.

(c) Foreign Exchange Risk

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

(d) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position.

(e) Credit Risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

27. FINANCIAL INSTRUMENTS (CONT'D)

(f) Fair Values

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

	Note	Group		Company	
		Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial Assets					
At 31 March 2006:					
Non-current unquoted shares	13	1,458,916	•	1,458,916	•
Amount due from subsidiaries	17	–	••	268,744	••
Marketable securities	18	495,683	489,006	16,677	10,000
At 31 March 2005:					
Non-current unquoted shares	13	1,735,500	•	1,735,500	•
Amount due from subsidiaries	17	–	••	3,411,767	••
Marketable securities	18	16,677	15,584	16,677	15,584
Financial Liabilities					
At 31 March 2006:					
Hire purchase payables	21	788,648	799,238	757,949	764,940
At 31 March 2005:					
Hire purchase payables	21	613,748	609,560	552,802	542,639

- It is not practical to estimate the fair value of the Company's and Group's non-current unquoted shares because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.
- It is also not practical to estimate the fair values of amounts due from subsidiaries due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 March 2006

27. FINANCIAL INSTRUMENTS (CONT'D)

(f) Fair Values (cont'd)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and Cash Equivalents, Trade and Other Receivables/Payables and Short Term Borrowings

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Marketable Securities

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

(iii) Borrowings

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

28. SEGMENTAL INFORMATION

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

STATISTIC ON SHAREHOLDINGS

as at 18th August 2006

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Authorised Share Capital	: RM50,000,000 of 50,000,000 ordinary shares of RM1.00 each
Issued and fully paid	: RM45,053,000 comprising 45,053,000 ordinary shares of RM1.00 each
Class of share	: Ordinary shares of RM1.00 each

Voting Rights	
- On show of hands	: 1 vote
- On a poll	: 1 vote for each share held

Name of Substantial Shareholder	Direct Interest	No. of Shares		%
		%	Deemed Interest	
HSBC NOMINEES (ASING) SDN. BHD BENEFICIARY: COOK OVERSEAS INVESTMENTS LTD	5,148,800	12.03%	—	—
DB (MALAYSIA) NOMINEE (ASING) SDN BHD BENEFICIARY: DEUTSCHE BANK AG LONDON	4,412,100	9.79%	—	—

Size of Holdings	No. of Holders		No. of Share		%	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
Less Than 100	82	0	1,544	0	0.00	0.00
100 - 1000	1,618	16	1,572,600	14,900	3.49	0.03
1001 - 10000	2,553	53	9,975,896	239,600	22.14	0.53
10001 - 100000	324	19	8,821,760	434,400	19.58	0.96
100001 and below 5%	32	3	11,412,400	2,749,000	25.33	6.10
5% and above	0	2	0	9,830,900	0.00	21.82
Directors	0	0	0	0	0.00	0.00
	4,609	93	31,784,200	13,268,800	70.55	29.45

DIRECTOR'S INTEREST IN THE COMPANY AND ITS RELATED CORPORATIONS

The Company - Kuantan Flour Mills Berhad

	Direct Interest	No. of Shares		%
		%	Deemed Interest	
Dato' Abdul Halim bin Dato' Haji Abdul Rauf	—	—	—	—
Micheal Camillus Fernandez	428,800	0.95%	2,405,000	5.34%
Dato' Krishna Kumar a/l Sivasubramaniam	—	—	—	—
Dr. Shanmughanathan a/l Vellanthurai	—	—	—	—
Ng Kay Eng	—	—	—	—

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

STATISTIC ON SHAREHOLDINGS (cont'd)

as at 18th August 2006

THIRTY LARGEST SHAREHOLDERS

NO.	NAME OF SHAREHOLDERS	SHAREHOLDINGS	%
1	HSBC NOMINEES (ASING) SDN. BHD (COOK OVERSEAS INVESTMENTS LTD)	5,148,800	12.03
2	DB (MALAYSIA) NOMINEE (ASING) SDN BHD DEUTSCHE BANK AG LONDON	4,412,100	9.79
3	DB (MALAYSIA) NOMINEE (ASING) SDN BHD (DEUTSCHE BANK AG SINGAPORE PBD FOR HAWKLEE HOLDINGS LIMITED)	1,912,000	4.24
4	RHB NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR ALINA GRACE TAN KUI KWON)	1,276,100	2.83
5	RHB NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR CHIAN SOON JUEE)	996,700	2.21
6	RHB NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR KENNETH ANDRE' TAN TSIN-LIONG)	984,100	2.18
7	RHB NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR RICCO RESOURCES SDN BHD)	899,400	2.00
8	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR S.S SUBRAMANIAM (100697))	794,800	1.76
9	HSBC NOMINEES (ASING) SDN BHD (BNP PARIBAS ARBITAGE (HONG KONG) LIMITED)	687,000	1.52
10	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR TAN BOON KIAT (SFC))	644,400	1.43
11	CITIGROUP NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR CHIAN SOON JUEE)	603,200	1.34
12	A.A. ASSETS NOMINEES (TEMPATAN) SDN BHD (EON FINANCE BERHAD FOR ONG KING KOK)	464,000	1.03
13	MAYBAN NOMINEES (TEMPATAN) SDN BHD (AMANAHRAYA-JMF ASSET MANAGEMENT SDN BHD FOR LIM LAI CHOY @ LIM AUN NEE (C411-260157))	440,000	0.98
14	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR KEVIN LIM TECK KWANG (SFC))	331,600	0.74

STATISTIC ON SHAREHOLDINGS (cont'd)
as at 18th August 2006

THIRTY LARGEST SHAREHOLDERS (CONT'D)

NO.	NAME OF SHAREHOLDERS	SHAREHOLDINGS	%
15	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR LIM CHUN KIA (100622))	310,300	0.69
16	KENANGA NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR IDRIS BIN ABDULLAH @ DAS MURTHY)	280,000	0.62
17	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR NEO KIM HOCK (SFC))	249,700	0.55
18	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR LIM SWEE YEAN (SFC))	248,000	0.55
19	TAN CHEE HWA	227,600	0.51
20	LIM LAM ENG	213,000	0.47
21	MAYBAN SECURITIES NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR WONG YOKE FOONG (REM-167-MARGIN))	203,100	0.45
22	HDM NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR LEE CHAI HUAT (M02)) ABDULLAH @ DAS MURTHY)	202,500	0.45
23	EB NOMINEES (TEMPATAN) SENDIRIAN BERHAD (PLEDGED SECURITIES ACCOUNT FOR TAN BOON KIAT (SFC))	196,100	0.44
24	CHIK KIN YEUN	196,000	0.44
25	TAN LEA FAH	193,400	0.43
26	KENNETH ANDRE' TAN TZIN-LIONG	188,300	0.42
27	TCL NOMINEES (ASING) SDN BHD (OCBC SECURITIES PRIVATE LIMITED FOR KEMI INVESTMENT INC)	150,000	0.33
28	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD (PLEDGED SECURITIES ACCOUNT FOR MICHAEL CAMILLUS FENANDEZ (100626))	141,500	0.31
29	MICHAEL CAMILLUS FERNANDEZ	140,000	0.31
30	ALINA GRACE TAN KUI KWON	139,000	0.31
		22,872,700	51

LIST OF PROPERTIES

Held by the group as at 31 March 2006

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

Location	Tenure	Date of Revaluation/ Date of Acquisition	Area	Description	Age of Building	Net Book Value RM'000
Pajakan Negeri 550 Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	21 year lease expiring on 14 September 2006 with option to renew for a further 21 years. Approval of extension of the lease is currently pending.	15-Sep-85	25,425 sq. metres	Office and factory	20 years and 13 years	1,993 2,854
Pajakan Negeri 550 Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	21 year lease expiring on 31 December 2011 with option to renew for a further 21 years	27-Feb-91	22,589 sq. metres	Vacant land held for future development	n/a	n/a
HS(M) 13839 Lot. No. 23617 Mukim Kuala Kuantan, Kuantan, Pahang	Freehold	14-Dec-90	446 sq. metres	Double storey detached house	15 years	79

NOTICE OF TWENTY SECOND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty Second Annual General Meeting of the Company will be held at the Vistana Hotel Kuantan, Jalan Teluk Sisek, 25000 Kuantan, Pahang on Friday, 29 September, 2006 at 10.00 a.m. for the following purposes:-

AGENDA

1. To receive and adopt the Audited Financial Statements for the year ended 31 March 2006 together with the Reports of the Directors and Auditors thereon. (Resolution 1)
2. To approve the payment of Directors' fees for the financial year ended 31 March 2006. (Resolution 2)
3. To re-elect Dato' Abdul Halim bin Dato' Haji Abdul Rauf as Director, who retires in accordance with Article 63 of the Company's Articles of Association and, being eligible, offers himself for re-election. (Resolution 3)
4. To re-elect Mr. Michael Camillus Fernandez as Director, who retires in accordance with Article 63 of the Company's Articles of Association and, being eligible, offers himself for re-election. (Resolution 4)
5. To re-appoint Messrs. Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. (Resolution 5)

As Special Business:-

To consider and, if thought fit, to pass the following Ordinary Resolutions:-

6. **Authority to allot and issue shares pursuant to the Company's Employees Share Option Scheme** (Resolution 6)
"That pursuant to the Company's Employees' Share Option Scheme ("the Scheme") as approved at the Extraordinary General Meeting of the Company held on 21 November 2000, the Directors be and are hereby authorised, pursuant to Section 132D of the Companies Act, 1965, to allot and issue from time to time such number of ordinary shares of RM1.00 each in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."
7. **Authority to allot and issue shares pursuant to Section 132D of the Companies Act, 1965** (Resolution 7)
"That pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby authorised to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."
8. To transact any other business of which due notice shall have been given.

By order of the Board,

Tan Yoke May
(LS 0004299)
Secretary

Kuala Lumpur
6th September 2006

NOTICE OF TWENTY SECOND ANNUAL GENERAL MEETING (cont'd)

notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A member shall not be entitled to appoint more than two (2) proxies to attend and vote instead of the member. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing a proxy in the case of an individual shall be signed by the appointer or by his attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, all holders must sign the Proxy Form.
5. The instrument appointing a proxy must be deposited at the registered office of the Company at Kawasan Lembaga Pelabuhan Kuantan, KM25, Jalan Kuantan/Kemaman, Tanjung Gelang, 25740 Kuantan, Pahang not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof.

Explanatory Notes on Special Business

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



KUANTAN FLOUR MILLS BERHAD

Company No. 119598-P
(Incorporated in Malaysia)

PROXY FORM

I/We, _____

of _____

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

hereby appoint _____

of _____

or failing him/her _____

of _____

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Twenty Second Annual General Meeting of the Company to be held on Friday, 29 September 2006 and at any adjournment thereof. My/Our proxy is to vote as indicated below:-

	RESOLUTIONS	FOR	AGAINST
1	Adoption of the Audited Financial Statements and the Directors' and Auditors' Reports.		
2	Approval of Directors' fees		
3	Re-election of Dato' Abdul Halim bin Dato' Haji Abdul Rauf		
4	Re-election of Mr. Michael Camillus Fernandez		
5	Re-appointment of Messrs. Ernst & Young as Auditors and Authorize the Directors to fix their remuneration		
	Special Business		
6	Authorise the Directors to issue shares pursuant to the Company's Employees' Share Option Scheme		
7	Authorise the Directors to issue shares pursuant to Section 132D of the Companies Act, 1965		

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

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

First Named Proxy	%
Second Named Proxy	%
	<hr/>
	100 %

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

Signed this _____ Day of September, 2006.

No. of Shares held: _____

Signature of Shareholder

Notes :-

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A member shall not be entitled to appoint more than two (2) proxies to attend and vote instead of the member. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing a proxy in the case of an individual shall be signed by the appointer or by his attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, all holders must sign the Proxy Form.
5. The instrument appointing a proxy must be deposited at the registered office of the Company at Kawasan Lembaga Pelabuhan Kuantan, KM25, Jalan Kuantan/Kemaman, Tanjung Gelang, 25740 Kuantan, Pahang not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof.



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Stamp

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

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