KUANTAN FLOUR MILLS BERHAD

(119598-P)

ANNUAL REPORT 2017

www.kfmb.com.my

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KUANTAN FLOUR MILLS BERHAD
(119598-P)

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100%	KFM Marketing Sdn Bhd
51%	KFM Trading Sdn Bhd

BOARD OF DIRECTORS

Kushairi bin Zaidel
(Independent, Non-Executive Director)
(Resigned on 5 April 2005 and re-appointed on 6 January 2009. Re-designated as Independent, Non-Executive Chairman on 20 August 2014)

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

Iskandar Zurkanain bin Mohamed
(Independent, Non-Executive Director)
(Appointed on 30 November 2016)

AUDIT COMMITTEE

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

Kushairi bin Zaidel
(Member, Independent, Non-Executive Chairman)

Iskandar Zurkanain bin Mohamed
(Member, Independent, Non-Executive Director)
(Appointed on 30 November 2016)

COMPANY SECRETARY

Laang Jhe How (MIA 25193)
Tan Kah Koon (MAICSA 7066666)
ED Zone Management Sdn Bhd
149A, Jalan Aminuddin Baki
Taman Tun Dr. Ismail
60000 Kuala Lumpur
Tel : 603-77291519
Fax : 603-7728 5948

REGISTERED OFFICE

Kawasan Lembaga Pelabuhan Kuantan
KM 25, Jalan Kuantan/Kemaman
Tanjung Gelang
25740 Kuantan
Tel : +609-5833611
Fax : +609-5833618

SHARE REGISTRAR

Bina Management (M) Sdn Bhd
Lot 10, The Highway Centre
Jalan 51/205
46050 Petaling Jaya, Selangor Darul Ehsan
Tel : +603-77843922
Fax : +603-77841988

AUDITORS

McMillan Woods Thomas
Chartered Accountants
A37, Jalan Tun Ismail 2
Sri Dagangan 2
25000 Kuantan, Pahang Darul Makmur

SOLICITOR

H. Y. Lee & Co.
54 (1st Floor), Jalan Raja Haroun
43000 Kajang,
Selangor Darul Ehsan

BANKERS

Malayan Banking Berhad
CIMB Bank Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
Sector : Consumer Products
Stock Short Name : KFM
Code : 8303

WEBSITE

www.kfmb.com.my

On behalf of the Board of Directors, I am pleased to present the Annual Report of Kuantan Flour Mills Berhad ('KFM') and the Audited Financial Statements of the Group for the financial year ended 30th September 2017. I wish to highlight that the financial statements have been prepared in accordance with the Financial Reporting Standards and the Companies Act 2016 in Malaysia.

Financial Review

The Group has resumed our flour milling operation during the second half of the financial year under review as a result of our business collaboration with Lotus Essentials Sdn Bhd. It took great efforts from every staff of all levels to ensure the success in resuming the operation.

The Group achieved a significant increase in revenue to RM 7.52 million as compared to the previous financial year's revenue of RM 3.92 million. The increase in revenue was due to the reactivation of our flour milling operation and also the additional revenue generated from the sale of tapioca starch arising from the business collaboration with Lotus Essentials Sdn Bhd.

Despite recording higher revenue, the Group incurred a higher loss before tax of RM 12.26 million during the financial year ended 30 September 2017 as compared to the previous year's loss before tax of RM 12.09 million. The higher loss before tax incurred was mainly due to the maintenance cost required to restart the operation , professional fees incurred on the proposed regularization plan and interest cost. Besides, our weak currency Ringgit Malaysia versus US Dollar has also weakened our position in securing cheaper raw materials.

Overview of the Industry

The announcement by the Government in 2016 to withdraw subsidy for the 25kg packing of the general purpose flour which is under the Price Control Act has created a level playing field for KFM to be back in the flour business. Despite of the flour business intense competitive environment, we are expecting continuous growth for the flour market as there is a rising trend of demand in the user industries such as the bakery, biscuits and noodles which shall create opportunities for KFM to re-establish its position in the market.

As wheat is a globally traded commodity and is the main raw material use to produce flour, the prices of wheat are expected to remain volatile depending on the demand and supply. In addition, the performance of our currency against the US Dollar is also vital in securing cheaper wheat.

Subsidiary Companies

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

Corporate Social Responsibility ("CSR")

CSR has always been treated by the Group as an integral part of our business operations. Despite the hectic schedule due to the reactivation of our milling business during the financial year under review, we were still managed to continue our CSR with the selective programmes such as:

1) Safety awareness programmes.
2) "Gotong Royong" activities.
3) Continuous training and development programmes for employees of all levels throughout the financial year to enhance their skills, knowledge and competence,
4) Dinner and festive gatherings for our employees.

Prospects for the Year Ahead

During the financial year under review, the Group had been working on available potential options to revive the Group. On 29 March 2017, KFM entered into a business collaboration agreement with Lotus Essentials Sdn Bhd with the objective of reviving the Group's operations. Subsequently, the Group managed to resume its flour milling operations in May 2017 as the result of this collaboration. On 29 September 2017, the Group has submitted an application to Bursa Securities for approval pertaining to a proposed comprehensive regularization plan with the objective to revive the Group and uplift from PN17 status .

Considering what we have done during the financial year, we can positively say that we are on right track from which we continue our journey moving forward. In conclusion, the prospect of the Group shall depend very much on the successful implementation of the said proposed regularization plan. The Board of Directors is confident that with the energetic commitment from the management and staff, the Group shall be able to perform well in the coming years ahead.

Acknowledgement

On behalf of the Board of Directors, may I take this opportunity to thank KFM's management & staff for their loyalty, courage and commitment throughout this transformation period which undoubtedly been a very exciting period in our history.

Our sincere gratitude and appreciation to the Group's shareholders, our valued and loyal customers, suppliers, bankers, auditors, Government agencies and all other business associates for their recognition and confidence in KFM. We are looking forward to having your continued support and loyalty.

We thank you.

Kushairi bin Zaidel
Chairman

Overview of Business and Operations

Kuantan Flour Mills Berhad (‘KFM’) is principally engaged in flour milling and trading in its related products. The Company has temporary ceased its business operations as at end of September 2016 due to financial constrain and has commenced reactivation of its flour milling operations since May 2017.

The Company has been classified as an affected listed issuer under PN17 on 28 December 2015 and is required to submit a regularization plan to the relevant authorities for approval within 12 months from the above date.

Corporate Developments

During the financial year, the following events took place:

On 13 December 2016, the Company has submitted an application to Bursa Malaysia Securities Berhad (‘BMSB’) for an extension of time of six (6) month to finalize and submit its regularization plan to revive the Group.

On 28 December 2016, BMSB has informed that the suspension on the trading of the Company’s securities and de-listing of the Company shall be deferred pending decision of the application on extension of time.

On 14 February 2017, BMSB has granted an extension of time of six (6) month up to 27 June 2017 for the Company to submit its regularization plan.

On 29 March 2017, the Company via KAF Investment Bank Berhad (‘KAF IB’) made a requisite announcement involving proposals on private placement, rights issue and restructuring of debts with its creditors.

On 29 March 2017, the Company has entered a business collaboration agreement with Lotus Essential Sdn Bhd (‘Lotus’).

On 13 June 2017, the Company, via KAF IB submitted an application to BMSB for a further extension of time to submit its regularization plan.

On 10 July 2017, BMSB granted an extension of time up to 30 September 2017 for the Company to submit its regularization plan.

On 28 September 2017, the Company has entered into debt settlement agreements with its scheme creditors and debt conversion agreement with Lotus.

On 29 September 2017, the Company has submitted an application via KAF IB to BMSB pertaining to a proposed comprehensive regularization plan for approval.

Review of Group’s Financial Results and Financial Conditions

The following table is the financial highlights of the Group for the past five (5) financial years:-

	2017 ‘ 000	2016 ‘ 000	2015 ‘ 000	2014 ‘ 000	2013 ‘ 000
Revenue	7,521	3,924	24,864	41,655	48,813
Operating loss	(12,259)	(11,795)	(16,459)	(1,715)	(4,879)
Loss before tax	(12,260)	(12,093)	(16,845)	(2,193)	(5,206)
Loss after tax and minority interests	(12,260)	(12,092)	(16,845)	(2,193)	(5,206)
Shareholders’ funds	(23,068)	(10,807)	1,286	16,558	18,751
Net tangible assets	(23,068)	(10,807)	1,286	16,558	18,751
Tangible assets	15,244	8,233	23,504	30,117	35,176
Basic loss per share (sen)	(17.97)	(17.72)	(25.07)	(3.36)	(7.99)
Net Assets per share (sen)	(33.81)	(15.84)	1.88	25.42	28.78

The revenue of the Group has increased significantly from RM3.924 million for preceding financial year to current financial year of RM7.521 million. An increase of 192% on a year-to-year basis.

Prior to the Group ceasing its business operations temporary as at end of last financial year due to financial constrain, the Group's main stream of revenue was derived from the sales of main flour and its by-products.

However, upon the Company entering into a business collaboration agreement with Lotus in March 2017 and with the financial support from Lotus in procurement of raw materials and restoration and repair of the factory plant, machinery and buildings, the Company has re-commenced its wheat flour operations and started trading of tapioca starch in May 2017. Within a short span period of few months before the financial year ended 30 September 2017, the Group has managed to improve its revenue significantly as compared to previous financial year.

The gross loss position has reduced as compared to previous financial year. The improvement was due to positive contributions from trading of tapioca starch. However, the Group was still facing negative contributions during the financial year partly due to a large portion of flour were utilized for the purpose of flushing and testing the flour milling line during the initial period of resumption of productions and some portion of flour were used as sample for marketing purposes.

The Group has recorded a marginally higher loss before tax of RM12.260 million for the financial year as compared to previous financial year of RM12.093 million which was partly due to repair cost for factory plant, machinery and buildings, professional fees incurred on the proposed regularization plan and interest cost.

The Group's inventory position has increased substantially from RM0.381 million to RM4.895 million due to the build-up of raw material stocks since the reactivation of business operations in May 2017.

The total receivables has surged from RM0.261 million as at 30 September 2016 to current financial year end of RM4.105 million due to credit sales granted to customers as a result of improvement in sales since reactivation of business operations, refundable GST and advance for purchase.

The Group's cash and cash equivalents stood at RM0.334 million for the financial year ended 2017. A marginal decrease from RM0.434 million for previous financial year ended 2016.

The Group has zero borrowing as at end of the financial year.

However, on the payables side, it has increased substantially from RM18.992 million to RM38.297 million which was mainly due to the advances and supplier's credit extended by Lotus to the Company pursuant to the business collaboration agreement entered between both parties to finance on the purchase of raw materials, repairs of plant, machinery and factory buildings and other operational costs incurred during the period for the Company.

Total shareholder's equity continues to slide from negative RM10.810 million for previous financial year end 2016 to current negative RM23.069 million due to current financial year loss after tax of RM12.260 million.

Operations

During the financial year, the Group has restored and repaired the factory plant, machinery and buildings in order to re-activate its production and business operations. It has re-established its regional distribution and warehousing centres. Further, it has entered into business collaboration agreement with Lotus Essential Sdn Bhd in order to tap into tapioca and corn starch market to diversify into other food related market. During the period, it also has engaged external consultants to improve the efficiency & effectiveness on the production process.

The Group will strengthen its value chain by exploring into other value added flour related products in both the local and oversea markets.

Human Capital

Prior to the reactivation of business operations in May 2017, it was a challenging period for the Group in terms of recruiting the right people for the right role in the Group. We have some vacancies that took us several months to fill but we are also very selective with our candidates for key positions.

Talent management and development is a critical component of our future and the overall health of the Group, hence we will continue our efforts in ensuring our plans are executed accordingly.

Anticipated Business Risks

The Group is exposed to several business risks such as market competitions, volatility of imported raw material prices, movements of currency exchange rates and performance of user industries.

a) Market competitions

Flour milling operators including KFM Group face stiff competitions among other wheat flour millers in Malaysia, as well as imports.

b) Volatility of raw material prices

Wheat and tapioca are the main raw material that are used in wheat flour milling and tapioca starch trading respectively. Both the wheat and tapioca are globally traded commodities, and as a result, their prices may fluctuate from time to time. The price of wheat and tapioca are influenced by global macroeconomic factors including, among others, supply and demand of wheat and tapioca, as well as stock levels.

Any increase in the prices of wheat and tapioca may increase the cost of wheat flour and tapioca starch respectively. If the increase in cost is not passed onto customers on time, it may adversely affect the financial performance of the Company.

c) Volatility of currency exchange rates

As wheat and tapioca are fully imported from oversea markets. These raw materials are traded in US Dollars. Any unfavorable fluctuations in foreign exchange rates may have an adverse impact on the Group's financial performance and profitability.

d) Dependency on performance of user industries

Flour is mainly used in food manufacturing industries and food services operations. Any adverse performance in user industries would affect the demand for these products and hence, the financial performance of the Company.

OUTLOOK

The consumer sectors including flour milling industry and its related products is likely to see higher sales due to increasing demand while competitions remain stiff.

We will expand our flour and other value added flour related products to regions that we have not previously participated to capture a bigger market share.

Apart from making efforts to explore new markets to expand our revenue base, continuous efforts will also be taken to strengthen our operations in order to enhance productivity, new product development and maximize our profit margin.

The prospects of the Company are also dependent on the successful implementation of the proposed regularization plan upon being approved by the relevant authorities and the Company's ability to re-penetrate the market successfully with the assistance of Lotus. With these in place, it will enable the Company to return to profitable and uplifting the Company from PN17 status.

The Board of Directors ("the Board") of Kuantan Flour Mills Berhad ("KFM" or "the Company") is committed in maintaining a high standard of corporate governance and to ensure that the principles and best practices of corporate governance as set out in the Malaysian Code on Corporate Governance 2012 ("the Code') are observed and adopted as a fundamental part of discharging its responsibilities to protect and enhance stakeholders' value.

The Board is pleased to set out below how the Group has applied the principles and recommendations as set out in the Code for the financial year ended 30 September 2017.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Functions of the Board and the Management
The Board, comprising of members with a wide diverse range of business, financial and technical background, recognizes the clear distinction of the roles and responsibilities between the Board and the Management.

The Board reviews and implements key policies and is responsible for the overall adequacy and effectiveness of the Group's risk management and internal control system.

The Management, on the other hand, is responsible for assisting the Board in implementing the policies and procedures adopted by the Board to achieve the Group's objective and in running the Group's day-to-day business operations.

Board's Roles and Responsibilities
The Company is led by an experienced and dynamic Board. It has a balanced board composition with effective independent directors. The Board provides stewardship to the Group's strategic direction and operations, and ultimately enhancing shareholders value. To fulfill this role, the Board is responsible for the following:-

- To review the performance of the Group on a quarterly basis.
- To receive updates and oversee the conduct of the Group's business and operations.
- To deliberate on proposals presented and recommended by the management.
- To review and approve the annual and quarterly results, acquisition and disposal of major assets.
- To review the adequacy and effectiveness of the Group's risk management and internal control system.
- To ensure that there are plans in place for orderly succession of senior management.

Directors' Code of Conduct
The Directors shall be guided by the Code of Ethics for Directors' issued by the Companies Commission of Malaysia. The Directors shall observe the Code of Ethics in performance of their duties which are vital for their business decisions.

Sustainability
The Board recognizes the environmental sustainability role as a corporate citizen in his business approach, and always endeavors in adopting most environmental friendly, ecological and cost effective production process.

Access to Information and Advice
All Directors have full and unrestricted access to all information of the Group on a timely and accurate manner to enable them to discharge their roles and responsibilities. In addition, the Directors have full and unrestricted access to the Company Secretary, the external auditors for independent professional advice and from external independent expert in deliberation of their duties.

Company Secretary
The Board recognizes the fact that the Company Secretary should be suitably qualified and capable of carrying out its duties as required of the post.

The primary role of the Company Secretary is to provide unhindered advice and services for the Directors, as and when need arises with the primary objective to enhance the effective functioning of the Board and to ensure regulatory compliance.

The Company Secretary facilitates the Board on overall compliance with the Main Market Listing Requirements ('MMLR') of Bursa Malaysia Securities Berhad as well as keeping the Board updated with the latest enhancements in corporate governance, changes in the legal regulatory framework, new statutory requirements and best practices.

Board Charter
The Board recognizes and observes the role, composition and responsibilities of the Board embodying in the principles of the Code and serve as a source of reference for new Board member. The Charter sets out guiding principles of good corporate governance to ensure fairness, transparency, accountability and responsibility. It provides guidance for Directors and Management regarding their roles in discharging their duties towards the Company as well as boardroom activities.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

The Board of Directors delegates specific responsibilities to the respective Committees of the Board namely, the Nomination and Remuneration Committee and the Audit Committee, all of which have their terms of reference to govern their respective scopes and responsibilities.

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

Both the Nomination and Remuneration Committees currently comprise the following members:
Leong Chen Nyen (Chairman)
Kushairi bin Zaidel

The Company Secretary who is also the secretary to the Nomination and Remuneration Committees ensures that all the necessary information is obtained, and all legal and regulatory obligations are met.

The aggregate directors' remuneration paid or payable or otherwise made available to all directors of the Company during the financial year ended 30 September 2017 are as follows:-

	Executive	Non-Executive	Total
Salary and other emoluments	-	-	-
Pension costs - defined Contribution plans	-	-	-
Fees	-	102,000	102,000
	-	102,000	102,000

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

	Executive	Non-Executive
Below RM50,000	-	3
RM50,001 to RM100,000	-	-
RM100,001 to RM150,000	-	-
RM150,001 to RM200,000	-	-
RM200,001 to RM250,000	-	-
RM250,001 to RM300,000	-	-
RM300,001 to RM350,000	-	-
RM350,001 to RM400,000	-	-
	-	3

PRINCIPLE 3 – REINFORCE INDEPENDENCE

Annual Assessment of Independence
The Board, through the Nomination Committee, shall assess the independence of Independent Directors annually with a view to ensure the Independent Directors bring independent and objective judgment to the Board and this mitigate any conflict of interest or undue influence from interested parties. The criteria for assessing the independence of an Independent Director include the relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company.

Tenure of an Independent Non-Executive Director
The maximum tenure of an Independent Non-Executive Director shall be for a cumulative period of nine (9) years. The Independent Non-executive Director may continue to serve on the Board beyond the nine (9) years tenure provided the Independent Non-Executive is re-designated as a Non-Independent Director. Further continuation is subject to the assessment of the Nomination Committee, justification of the Board and approval of the Shareholders.

Shareholders' Approval for Retaining Independent Non-Executive Director exceeding 9 years service
The Board recommends and seeks for shareholders approval for retaining Independent Non-Executive Director exceeding nine (9) years of service based on the following justifications:

i) They had fulfilled the criteria under the definition of Independent Director as stated in the MMLR of Bursa Malaysia Securities Berhad and therefore were able to bring independent and objective judgment to the Board.
ii) Their long tenure with the Company had neither impaired nor compromised their independent judgment, They were free from any business or other relationships which could interfere with their exercise of independent judgment.
iii) They provided effective check and balance in the proceeding of the Board and the Board Committees
iv) They continued to remain objective and are able to exercise independent judgment in expressing their views and in participating in deliberation and decision making of the Board and Board Committees in the best interest of the Company.
v) They exhibited high commitment and devoted sufficient time and attention to their responsibilities as Independent Directors of the Company and
vi) They had met with the attendance requirements for Board Meetings pursuant to the MMLR. During the financial year under review, they had each attended all the Board meetings held. This testifies to their dedication in discharging the responsibilities expected of an Independent Director.

Composition of the Board
The Board currently has three (3) Non-Executive Directors. The Chairman assumed the function of the Executive Director with the assistance of the Chief Financial Officer and the management to implement policies and decisions of the Board, oversees the operations and initiates business development efforts for the Group whilst the Non-Executive Directors bring a wide range of business experience and expertise to the Board for discussion and decision making. The Company's constitution allows a minimum of two (2) and a maximum of nine (9) Directors.

A brief profile of each Director is presented on page 22 of this Annual Report.

PRINCIPLE 4 – FOSTER COMMITMENT

Time Commitment
During the financial year ended 30 September 2017, the Board met on seven (7) occasions.

All the Directors review the Board's reports prior to the Board meeting. The reports are being issued at least 7 days prior to the meeting in order for Board members to obtain further explanation and information, where necessary. The Board's reports include (i) Progress report of the Company, and (ii) Major operational and financial issues. All proceedings from the Board meetings are minuted and signed by the Chairman of the meeting

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

Director	Number of Board Meetings held during tenure in office	Attendance
Kushairi bin Zaidel	**7**	**7**
Leong Chen Nyen	**7**	**7**
Iskandar Zurkanain bin Mohamed (appointed on 30 November 2016)	**5**	**5**

Directors' Training
All the Directors have attended the Mandatory Accreditation Programme ("MAP") prescribed by Bursa Malaysia Securities Berhad. For new Directors, a familiarization programme will be conducted for them. This includes a presentation of the Group's operations, meetings with senior management and site visits in order to facilitate their understanding of the Group's operations and requirements.

The Directors are encouraged to attend relevant seminars and courses to keep themselves abreast on the various issues faced in the changing business environment, regulatory and corporate governance developments to enhance their professionalism, skill and knowledge to effectively discharging their duties and responsibilities.

Throughout the financial year under review, the Directors have attended various briefings, conferences and seminar programmes covering areas that included corporate governance, leadership, relevant industry updates and global business developments.

PRINCIPLE 5 – UPHOLD INTERGRITY IN FINANCIAL REPORTING

Compliance with Applicable Financial Reporting Standards
The financial statements of the Group were prepared in accordance with the applicable approved accounting standards in Malaysia and the provisions of Companies Act, 2016.

The Board is committed to provide a balanced, clear and comprehensive assessment of the Group's performance, position and prospects primarily through the annual financial statements, quarterly financial reports and corporate announcements on significant developments to the shareholders.

The Audit Committee reviews the integrity and reliability of the quarterly financial statements and audited financial statements prior to recommending to the Board.

Directors' responsibility statement in respect of the preparation of the audited financial statements is set out on page 23 of this annual report.

Assessment of Suitability and Independence of External Auditors
The Company has always maintained a transparent and professional relationship with the external auditors through the Audit Committee ('AC').

The criteria for the external auditors assessment include quality of services, sufficient of resources, communication and interaction, audit planning, independence, objectively and professional scepticism. In determining the independence of the external auditors, the AC reviewed and assessed all aspects of their relationships with them including the processes, policies and safeguards adopted by the Group and the external auditors relating to audit independence. The AC also reviewed and assessed the external auditor's performance and independence.

The AC has been explicitly accorded the power to communicate directly with the external auditors. The external auditors are invited to attend the Audit Committee Meetings to facilitate the exchange of view on issues requiring attention. The role of AC in relation to the external auditors is described on page 16.

A summary of the activities of the AC during the financial year including the evaluation of independent audit process are set out on page 14 of this annual report.

PRINCIPLE 6 – RECOGNIZE AND MANAGE RISKS

Sound Framework to Manage Risks
The Board of Directors recognizes the importance of having an effective governance embedding risk management and internal control processes, and acknowledges its overall responsibility for maintaining a sound system of internal control covering not only financial controls but also controls relating to operational, compliance and risk management to safeguard shareholders' investments and the Group's assets.

The Statement on Risk Management and Internal Control is set out on pages 17 to 18 of this Annual Report.

Internal Audit Function
The Group's internal audit function has the policy to outsource to external professional services firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

The Company has now been designated a PN17 entity. A proposed regularization plan has been submitted to Bursa Malaysia Securities Berhad on 29 September 2017. During the financial year under review, the Company has engaged an external consultant to carry out risk management and internal control review for the above submission.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure Policies
The core communication channel with the Stakeholders employed by the Company is the announcements made through Bursa Securities and it is the Company policy that all material announcements to be made through Bursa Securities are to be approved by the Board prior to its release. The Board observes all disclosure requirements as laid down by MMLR and Capital Markets and Services Act 2007 to have all material event and information to be disseminated publicly and transparently on timely basis with factual, accurate and complete information to ensure fair and equitable access by all stakeholders without selective disclosure of such information to specific individuals or groups. Therefore, information that is price-sensitive or any undisclosed material information about the Group is not disclosed to any party until it is ready for simultaneous distribution.

Leverage on Information Technology for Effective Dissemination of Information
The Company's website www.kfmb.com.my provides relevant information on the Group which is accessible to the public.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

Encourage Shareholder's Participation at General Meetings
The Annual General Meeting ("AGM") remains the principal forum for dialogue with the shareholders where they are encouraged to meet the Board to have greater insight into the Group operations. Notice of AGM together with copy of the Company's annual report will be sent to shareholders at least twenty-one (21) days prior to the meeting. Shareholders who are unable to attend are allowed to appoint proxies to attend, speak and vote on their behalf. At the AGM, shareholders are given the opportunity to raise questions on the Group's activities and prospects as well as to communicate their expectations and concerns to the Company. The Board and the Management together with the external auditors and Company secretary are available to provide feedback and responses to questions raised by shareholders during the meeting.

Extraordinary General Meeting is held as and when shareholders' approvals are required on specific matters.

Poll Voting
Pursuant to the Paragraph 8.29A(1) of MMLR of Bursa Securities, all resolutions deliberated during the General Meetings will be put to vote by way of poll and the voting results will be released to Bursa Securities on the same day

Effective Communication and Proactive Engagements with Shareholders
The Company recognizes the importance of communicating with its shareholders and does this through the annual report, AGM and announcements via Bursa Securities. During the AGM, sufficient time will be allocated for shareholders to ask questions about the Group and its operations.

In addition, shareholders are able to obtain latest information of the Group at the Company's website.

This Statement was approved by the Board on 11 January 2018.

The members of the Audit Committee of the Company are pleased to present their report for the financial year ended 30 September 2017.

The present members of the Audit Committee comprise: -

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

Kushairi bin Zaidel
(Member, Independent, Non-Executive Chairman)

Iskandar Zurkanain bin Mohamed
(Member, Independent, Non-Executive Director)
(Appointed on 30 November 2016)

Meetings

The Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. As part of the duty to foster open communication, the internal auditors and a representative(s) of the external auditors (if required) will normally attend the meetings. Other Board members and senior management staff may attend upon invitation by the Committee. The Company Secretary or any other person appointed by the Committee for this purpose shall act as Secretary for the Committee and as a reporting procedure, the minutes shall be circulated to all members of the Committee and the Board.

A quorum shall be two members, both being Independent Directors and one of whom shall be the Chairman of the Audit Committee.

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

Member	Number of Audit Committee meetings held during tenure in office	Attendance
Leong Chen Nyen	**6**	**6**
Kushairi bin Zaidel	**6**	**6**
Iskandar Zurkanain bin Mohamed (appointed on 30 November 2016)	4	4

Summary of Activities

The Audit Committee carried out the following activities:

a) Reviewed internal audit reports presented and considered the findings on the Group's operations through the review of internal audit reports tabled and management responses thereof;
b) Reviewed the internal audit plans for the financial year;
c) Reviewed the unaudited quarterly financial statements and the annual financial statements of the Company and of the Group and recommending the same for approval by the Board upon being satisfied that the financial reporting and disclosure requirements of the relevant authorities have been complied with;
d) Reviewed with the external auditors the results of the audit, the audit report and the management letter, including management's response.

Terms of Reference

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

1) Membership

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

At least one member of the Audit Committee: -

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

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

2) Authority

The Committee is authorized by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorized by the Board to obtain external legal or other independent professional advice if 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 assumptions;
  - compliance with accounting standards and regulatory requirements;
  - any changes in accounting policies and practices;
  - significant issues arising from the audit;
  - major judgmental areas;
- To discuss problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to discuss (in the absence of management, where necessary);
- To review the external auditors' management letter and management's response;
- To oversee internal audit function by:
  - reviewing the adequacy of scope, functions and resources of the internal auditors and to ensure that it has the necessary authority to carry out its work;
  - reviewing internal audit programme;
  - ensuring coordination of external audit with internal audit;
  - considering the major findings of internal audit investigations and management's response, and ensure that appropriate actions are taken on the recommendations of the internal audit function;
- To monitor related party transactions entered into by the Company and the Group, and to ensure that the Directors report such transactions annually to shareholders via annual reports;
- To review the effectiveness of internal control systems.

4) Internal Audit Function

The internal audit functions of the Group, as an integral and essential part of risk management process, have been outsourced to a professional firm to maintain independence and attain efficiency in the review and maintenance of the systems of control. The internal audit monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlight significant findings in respect of any non-compliance. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review.

5) Access and relationship with External Auditors

The committee shall have unlimited access to all information and documents relevant to its activity 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, have full and unrestricted access to any information pertaining to the Group;
(iii) have direct communication channel with external auditors and person(s) carrying out the internal audit function or activity (if any);
(iv) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary;
(v) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Group, whenever deemed necessary ; and
(vi) be able to report promptly to Bursa Malaysia Securitie Berhad on any matters reported by it to the Board of the Company, which has not been satisfactorily resolved in a breach of the Listing Requirements.

Introduction

The Malaysian Code on Corporate Governance requires the Board of Directors (Board) to maintain a sound system of risk management and internal control to safeguard Shareholders' interests and the Group's assets. The Board of Kuantan Flour Mills Berhad ("KFMB") is committed to maintaining a sound system of internal control and effective risk management as part of its ongoing efforts to practice good corporate governance.

This statement of risk management and internal control is prepared pursuant to paragraph 15.26(b) of the Main Market Listing Requirements ("MMLR") and Practice Note 9 of Bursa Securities Malaysia Berhad ("Bursa Securities").

The Board is pleased to provide the following statements that has been prepared accordingly.

Board's Responsibilities

The Board recognizes the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility in maintaining a sound, adequate and effective internal control and risk management system within the Group to ensure good corporate governance. The Group's risk management and system of internal control are structured to provide reasonable assurance to achieve the following:-

- Effective and efficient operations;
- Accuracy and timeliness of financial reporting;
- Compliance with applicable laws and regulations;
- An environment to promote integrity, good ethics and conduct;
- Regular reviews and update on risk management and system of internal controls.

However, due to inherent limitations in any internal control system, such system is design to manage rather than eliminate risks that may impede the achievement of the Group's business and corporate objectives. In this regard, the systems and procedures put in place are aimed at minimizing and managing risks. All aspects of financial, organizational, operational, compliance controls as well as risk management procedures are contained within this system of risk management and internal control.

Risk Management

Risk management is firmly embedded in the Group's management system. The Board regards risk management as an integral part of the Group's business operations. The Group had established a risk management process to identify, evaluate and manage significant risks faced by the Group and formulate appropriate measures to address those risks.

The responsibility for reviewing the adequacy and effectiveness of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and effectiveness of the internal control system and the governance system through independent reviews performed by the internal audit function, external auditors and Management.

Internal Control System

The Board is committed to maintain a strong control structure and environment for the proper conduct of the Group's business operations. The key elements are as follows:-

- Organization and definition of the management structure of Group including areas of responsibilities and segregation of authorities and limits;
- The Board and Audit Committee meet on a quarterly basis and on an ad-hoc basis where there is a need arise to discuss matters raised by the management, on strategic and operational matters inclusive of potential risks and control issues;
- The Board had delegated the responsibilities to several committees and to the management of the Company to implement and monitor designated tasks;
- Performance reports are provided to the Board to facilitate review and monitoring of financial performance;
- Proper guidelines within the Group for recruitment and selection, compensation and benefits, performance management, training and development, employee communication and human resource administration;
- Structured training and development programs conducted both internally and externally covering all levels of staff to upgrade their knowledge, skill and competency;
- Segregation of duties to reduce the scope for error and to prevent collision;
- Health and safety policies and procedures are in place to assist in maintaining a safe working environment for all employees;
- Sufficient insurance coverage on major asset classes is in place to ensure the Group's assets are adequately covered against risks that can results in material losses.

Internal Control System (continued)

The overall system of internal control was satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require public disclosure. The Board continues to review and implement measures to strengthen the internal control environment of the Group.

Internal Audit Function

The Group's internal audit function has the policy to outsource to external professional services firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

The Company has now been designated a PN17 entity. A proposed regularization plan has been submitted to Bursa Malaysia Securities Berhad on 29 September 2017. During the financial year under review, the Company has engaged an external consultant to carry out risk management and internal control review for the above submission.

Review of the Statement by External Auditors

Pursuant to Paragraph 15.23 of the Bursa Malaysia Securities Berhad's Listing Requirements, the external auditors have reviewed this Statement for inclusion in the annual report of the Group for the year ended 30 September 2017. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the system of risk management and internal control of the Group.

The Board is of the view that the Company's risk management and internal control system is operating effectively and adequately, in all material aspects, and have received the same assurance from the chief financial officer of the Company. The Board confirms that the risk management process in identifying, evaluating and managing significant risks faced by the Company had been in place throughout the financial year ended 30 September 2017 and up to the date of approval of this statement.

This statement is made in accordance with a resolution of the Board of Directors dated 11 January 2018.

Kuantan Flour Mills Berhad ('KFM') recognizes its responsibility not only towards its stakeholders, but also to the wider community it operates. With a view of embedding sustainability elements in its work culture, KFM has been formulating strategies to foster on the sustainable use of resources and the adoption of responsible business practices that include good governance, clear transparency and proper employee development. KFM is committed to play a positive role on its corporate responsibility initiatives to create and add value towards the environment, the work place, the community and the market place.

THE ENVIRONMENT

As the trend on depletion of earth's natural resources increased and global climate change issues took place frequently, the environmental sustainability becomes paramount important. We recognize the potential environmental impacts of our business and are committed to operate in a manner that respects the environment and stewards limited resources well. Hence, it is essential to embed environmental sustainability principles into our business operations and practices with the objective of safeguarding shareholders' interest whilst protecting the environment.

KFM practices environmental ethics as far as possible in an effort to reduce its environmental footprint. The initiatives adopted by KFM to achieve a balance between economics, environmental and social considerations in its production processes and business operations are as below:

- Well equipped with proper equipments to prevent flour dust from emitting into the environment;
- Sent the used engine oil to registered waste oil company for recycling;
- The efficient use of energy, water and raw materials in our operations;
- The emphasis of work culture on "Go Green' policy at workplaces.

THE WORKPLACE

Employees are the backbone of any business and are central to the functioning of the business operations. They play a vital role in the success and sustainability of the Company.

KFM advocates a corporate philosophy in providing a healthy and safe workplace with a conducive working environment for its entire workforce.

Employees of different background, gender, age and ethnicity are given fair opportunities for career growth, fair performance evaluation and compensation programmes which commensurate with their rank and level of employment.

KFM in fulfilling its responsibility as a caring employer, places emphasis on building long lasting relationships with its employees.

The following initiatives have been adopted by the Group:

1) Employees' Welfare and Well-being

    - Medical benefits;
    - Regularly updating of human resource policies and staff benefits;
    - Encouraging a healthy and building camaraderie among staff by providing support for social activities;
    - Equal employment opportunity in terms of gender and ethnicity across all levels of employment.

2) Safe, Healthy and Conducive Work Environment

    The Group places great emphasis on safety and health aspects of its employees while maintaining a comfortable and conducive work environment through the following initiatives:

    - The setting up of Occupational Safety and Health Committee to initiate various health and safety programmes to enhance employees' awareness in work place;
    - Ensuring a safe workplace with 24 hours' security surveillance;
    - Constant updating and promoting the awareness of safety precautions and health issues;
    - Employees are required to wear safety gears at work place to minimize work injuries;
    - Maintaining a workplace that is free from theft, violence, harassment, intimidation and other unsafe and disruptive influences due to internal and external conditions.

3) Training and development

The Group recognizes the importance of human capital development to meet challenges. It continues to build and upgrade its human resources to ensure that they can realize their full potential with the following efforts:

- To engage in external training workshops for employees on both technical related skills and soft management skills;
- Participate in the international trade fairs/ exhibitions to broaden the knowledge base and exposure of its employees to keep abreast on new developments in their respective field of expertise;
- New employees will participate in new employees' orientation as well as on-site visit to get clear insights into the Group's operations.

4) Recreational, Sports and Leisure Activities

The Group encourages its employees to participate in sports and recreational activities in order to cultivate a good work-life balance culture. This would lead to a more productive workforce team and develop a caring, harmonious, cohesive and vibrant team-spirit based working environment.

5) Retention, Talent Management and Succession Planning

The Group recognizes the importance of retaining key employees as one of the crucial elements for the success of its business. In line with this, competitive reward packages are in place and regularly reviewed to attract, retain and motivate the right talents within the Group. Succession planning are put in place for critical positions to ensure sustainability in terms of continuous effective and efficient operations within the Group and a healthy leadership pipeline.

THE COMMUNITY

The Group has initiated various activities in fulfilling its corporate responsibility on enhancing community sustainability such as by encouraging its employees to participate in voluntary works for charitable organizations and donations from the Company.

THE MARKET PLACE

The Group has placed great emphasis to carry out activities with high ethical standards to promote responsible practices among its investors, suppliers and customers in order to achieve a sustainable development in market place.

1) Investors

In order to establish trust and confidence of our shareholders, the Group strive to enhance corporate value via various practices such as maximizing shareholders' wealth through continuous efforts to achieve operational excellence. The Group ensures that the disclosure and dissemination of all material information in a timely, open, fair and transparent manner. The Group is committed to maintain a robust system of corporate governance and to implement policies that promote ethical behavior and conducting business responsibility through high standards of business ethics. Further, it also engages with its shareholders and investors through various channel of communication such as general meetings of shareholders, accessibility in the public domain and regular updates on our website.

2) Suppliers

Reliable suppliers and vendors are essential for the smooth running of our business operations. It is important to work closely with these suppliers and vendors to establish a long term working relationships and to realize mutual growth via mutual trust. We also conduct site visits on selected suppliers, in-depth suppliers' audit and practice standard and equitable procedures in vendor evaluation to ensure that products and services supplied are in accordance to our material requirements and standards.

3) Customers

Customers are the key focus of the Group to develop and provide top-notch quality products and services that meet the expectations of a wide base of customers' demands and earns their trust.

In line with this principle, the Group has continuously seek rooms for improvement in order to create value for its customers via competitive pricing without compromising on quality of its products and services and also the interest of its shareholders.

In achieving this, the Group initiates the following:

- Strict quality control from production, warehousing to prompt delivery of our products and after-sales service to its customers;
- To ensure operational excellence in order to reduce overall cost and share these benefits with its customers;
- Regular customer surveys to obtain feedback from ordering process to delivery, product quality and services.

CONCLUSION

The Group will continue to use its best efforts to build sustainable practices on every aspect of its business where possible for the benefits of future generations and remain steadfast in achieving excellence in its corporate responsibility.

Kushairi bin Zaidel, is a Malaysian, aged 60, is currently the Independent, Non-Executive Chairman of the Group. As an Accountant, he started his professional service career in Sarawak as an Auditor with HRM/Arthur Anderson. He then embarked on his corporate career in 1988 when he joined a very established property development company, Borneo Development Sdn Bhd which is jointly owned by the State Government of Sarawak and Sabah. He left the corporate sector to pursue his entrepreneurship endeavours in 1995.

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

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

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

Leong Chen Nyen, is a Malaysian, aged 60, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accounts, United Kingdom and a member of the Institute of Singapore Chartered Accountants.

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

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

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

Iskandar Zurkanain bin Mohamed, is a Malaysian, aged 44. He started his career in the defence industry in 1994 with Zetro Sdn Bhd and later joined Bakti Udara Sdn Bhd as product accounts manager and involved in the sales of various military aircrafts and spares. He then embarked on his own career and started his own company Powerstar Sdn Bhd, McNa Enterprise Sdn Bhd and Stable Flex Solutions Sdn Bhd in which he continued in the business of sales of building materials and specialized military equipment to the armed forces

He presently sits on the Audit Committee as an ordinary member.

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

The Directors are required by the Companies Act, 2016 to prepare the financial statements for each financial year which have been made out in accordance with the applicable Financial Reporting Standards in Malaysia and to give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year.

In preparing the financial statements, the Directors have:
- adopted suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured that all applicable accounting standards have been followed; and
- prepared the financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy on the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act 2016.

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.

1. Audit Fees and Non-Audit Fees

The amount of non-audit fees paid or payable to firm or corporation affiliated to the auditors for the year ended 30 September 2017 amounted to RM3,000 for the Group and the Company (2016: RM3,000 for the Group and the Company). The amount of the audit fee paid or payable to the external auditors of the Company and the Group have been disclosed under note 7 to the audited financial statements of this annual report.

2. Material contracts

No material contracts (not being contracts entered in the ordinary course of business) have been entered into by the Company and/or its subsidiaries which involved Directors' and/or major shareholders' interest, either still subsisting at the end of the financial year ended 30 September 2017 or, if not then subsisting, entered into since the end of the previous financial year.

3. In compliance with the Bursa Securities Listing Requirements, the following additional information is provided:-

During the financial year under review, there were no:
- Utilization of proceeds;
- Share buybacks;
- American Depository Receipt / Global Depository Receipt Programme sponsored by the Company;
- Sanctions and/or Penalties;
- Profit Estimate, Forecast or Projection;
- Profit Guarantee;
- Recurrent Related Party Transaction of Revenue or Trading Nature;
- Options, warrants or convertible securities exercised;
- Contracts of loan between the Company and its subsidiaries that involve Directors' and/or major shareholders' interest.

The Directors submit their report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 30 September 2017.

Principal activities

The principal activities of the Company are flour milling and trading in its related products. The principal activities of the subsidiaries are described in Note 13 to the financial statements.

There was no significant change in the nature of these activities during the financial year.

Financial results

	Group RM	Company RM
Loss for the year attributable to equity holders of the Company	**(12,259,715)**	**(12,252,071)**

Dividends

No dividends have been paid or declared since the end of the previous financial year.

Reserves and provisions

There were no material transfers to or from reserves and provisions except as disclosed in the financial statements.

Shares and debentures

The Company did not issue any new shares or debentures during the financial year.

Share options

No options have been granted by the Company to any parties during the year to take up unissued shares of the Company.

No shares have been issued during the year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end year, there were no unissued shares of the Company under options.

Directors

The Directors of the Company in office at any time during the year or since the end of the year are:

Kushairi bin Zaidel
Leong Chen Nyen
Iskandar Zurkanain bin Mohamed

Directors' benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remunerations received or due and receivable by the Directors shown in 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 the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Directors' interests

According to the register of directors' shareholding under Section 59 of the Companies Act 2016, none of the Directors in office at the end of the year held any interests in shares in the Company and its related corporation during the year.

Directors' remunerations

The amount of the remunerations of the Directors or Past Directors of the Company comprising remunerations received/ receivable from the Company and its subsidiaries during the year are as follows:

	Group and Company 2017 RM
Fees	**102,000**

The estimated money value of other benefits received or receivable by the Directors otherwise in cash from the Company during the year is NIL (2016: NIL).

Total amount paid to or receivable by any third party in respect of the services provided to the Company by the Directors or Past Directors of the Company during the year is NIL (2016: NIL).

Indemnifying Directors, Officers or Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been the Director, Officer or Auditor of the Company.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- 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 liability of any other person; or
- any contingent liability of the Group or of the Company, which has arisen since the end of the financial year.

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, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

In the opinion of the Directors:

- the loss of the Group's and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

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

Subsidiaries

Details of the subsidiaries are set out in Note 13 to the financial statements.

List of directors of subsidiaries

Pursuant to Section 253 of the Companies Act 2016, the list of Directors of the subsidiaries during the financial year and up to the date of this report is as follows:

Lee Chee Kiean
Dennis Tow Jun Fye
Kushairi bin Zaidel

Auditors' remunerations

Total amounts paid to or receivable by the auditor as remunerations for their services from the Company and its subsidiaries are as follows:

	2017	2016
	RM	RM
Statutory audit	**54,000**	RM 54,000
Other services	**3,000**	3,000
	57,000	57,000

Auditors

The retiring auditors, McMillan Woods Thomas, have indicated their willingness to be re-appointed.

In accordance with a resolution of the Board of Directors dated 11 January 2018.

Kushairi bin Zaidel
Director

Leong Chen Nyen
Director

Kuantan

STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

We, Kushairi bin Zaidel and Leong Chen Nyen, being two of the Directors of Kuantan Flour Mills Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 29 to 63 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 September 2017 and of the results and cash flows of the Group and of the Company for the financial year then ended.

The supplementary information set out in Note 33 on page 63 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institutes of Accountants and presented based on the format as prescribed by Bursa Malaysia Securities Berhad.

In accordance with a resolution of the Board of Directors dated 11 January 2018

Kushairi bin Zaidel	**Leong Chen Nyen**
Director	Director

Statutory declaration
Pursuant to Section 251(1) of the Companies Act, 2016

I, Lum Mei Hoo, being the Officer primarily responsible for the financial management of Kuantan Flour Mills Berhad, do solemnly and sincerely declare that the financial statements set out on pages 29 to 63 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.

Lum Mei Hoo

Subscribed and solemnly declared by the abovenamed Lum Mei Hoo

At: Kuantan

On: 16 January 2018

Before me:

Pesuruhjaya Sumpah Malaysia
No. C108
Chan Chiu Wah
41 Jalan Mahkota
25000 Kuantan
Pahang Darul Makmur

		Group		Company	
		2017	2016	**2017**	2016
	Note	**RM**	RM	**RM**	RM
Revenue	4	**7,521,075**	3,924,194	**7,521,075**	3,924,194
Cost of sales	5	**(10,825,592)**	(9,007,990)	**(10,825,592)**	(9,007,990)
Gross loss		**(3,304,517)**	(5,083,796)	**(3,304,517)**	(5,083,796)
Other operating income		**4,015**	2,702,138	**4,015**	2,660,698
Impairment loss for property, plant and equipment		**-**	(4,283,097)	**-**	(4,283,097)
Administrative expenses		**(8,369,419)**	(4,492,838)	**(8,361,152)**	(4,397,763)
Selling expenses		**(589,489)**	(637,072)	**(589,489)**	(637,072)
Finance costs	6	**(928)**	(298,169)	**(928)**	(298,169)
Loss before tax	7	**(12,260,338)**	(12,092,834)	**(12,252,071)**	(12,039,199)
Taxation	10	**-**	-	**-**	-
Net loss for the year, representing total comprehensive loss for the year		**(12,260,338)**	(12,092,834)	**(12,252,071)**	(12,039,199)
Attributable to:					
Equity holders of the Company		**(12,259,715)**	(12,092,211)	**(12,252,071)**	(12,039,199)
Non-controlling interests		**(623)**	(623)	**-**	-
		(12,260,338)	(12,092,834)	**(12,252,071)**	(12,039,199)
Loss per share attributable to equity holders of the Company (sen)					
Basic and Diluted	11	**(17.97)**	(17.72)	**-**	-

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

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Non current assets					
Property, plant and equipment	12	**5,545,499**	6,679,857	**5,545,499**	6,679,443
Investments in subsidiaries	13	**-**	-	**5,109**	5,109
Other investment	14	**364,686**	477,151	**364,686**	477,151
		5,910,185	7,157,008	**5,915,294**	7,161,703
Current assets					
Inventories	15	**4,894,519**	381,364	**4,894,519**	381,364
Receivables, deposits and prepayments	16	**4,105,135**	260,929	**4,135,376**	287,202
Deposits, cash and bank balances	17	**334,117**	433,676	**330,065**	430,457
		9,333,771	1,075,969	**9,359,960**	1,099,023
Less: Current liabilities					
Payables	18	**38,296,777**	18,992,028	**38,285,940**	18,985,909
Current tax liabilities		**14,759**	13,609	**14,759**	13,609
Borrowings	19	**-**	29,944	**-**	29,944
		38,311,536	19,035,581	**38,300,699**	19,029,462
Net current liabilities		**(28,977,765)**	(17,959,612)	**(28,940,739)**	(17,930,439)
Less: Non current liabilities					
Borrowings	19	**-**	4,638	**-**	4,638
Net liabilities		**(23,067,580)**	(10,807,242)	**(23,025,445)**	(10,773,374)
Equity attributable to owners of the Company					
Share capital	20	**3,442,279**	3,411,454	**3,442,279**	3,411,454
Share premium	21	**-**	30,825	**-**	30,825
Accumulated losses		**(26,511,651)**	(14,251,936)	**(26,467,724)**	(14,215,653)
Shareholders' equity		**(23,069,372)**	(10,809,657)	**(23,025,445)**	(10,773,374)
Non-controlling interests		**1,792**	2,415	**-**	-
Total equity		**(23,067,580)**	(10,807,242)	**(23,025,445)**	(10,773,374)

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

Group	Attributable to owners of the Company				Non controlling interest	Total equity
	Share capital (Note 20)	Share premium (Note 21)	Accumulated losses	Total		
	RM	RM	RM	RM	RM	RM
At 30 September 2015	3,411,454	30,825	(2,159,725)	1,282,554	3,038	1,285,592
Total comprehensive loss	-	-	(12,092,211)	(12,092,211)	(623)	(12,092,834)
At 30 September 2016	3,411,454	30,825	(14,251,936)	(10,809,657)	2,415	(10,807,242)
At 30 September 2016	**3,411,454**	**30,825**	**(14,251,936)**	**(10,809,657)**	**2,415**	**(10,807,242)**
Transfer pursuant to Companies Act 2016 (Note 20)	**30,825**	**(30,825)**	**-**	**-**	**-**	**-**
Total comprehensive loss	**-**	**-**	**(12,259,715)**	**(12,259,715)**	**(623)**	**(12,260,338)**
At 30 September 2017	**3,442,279**	**-**	**(26,511,651)**	**(23,069,372)**	**1,792**	**(23,067,580)**

Company	Share capital (Note 20)	Share premium (Note 21)	Accumulated losses	Total
	RM	RM	RM	RM
At 30 September 2015	3,411,454	30,825	(2,176,454)	1,265,825
Total comprehensive loss	-	-	(12,039,199)	(12,039,199)
At 30 September 2016	3,411,454	30,825	(14,215,653)	(10,773,374)
At 30 September 2016	**3,411,454**	**30,825**	**(14,215,653)**	**(10,773,374)**
Transfer pursuant to Companies Act 2016 (Note 20)	**30,825**	**(30,825)**	**-**	**-**
Total comprehensive loss	**-**	**-**	**(12,252,071)**	**(12,252,071)**
At 30 September 2017	**3,442,279**	**-**	**(26,467,724)**	**(23,025,445)**

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

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Operating activities					
Loss before tax		**(12,260,338)**	(12,092,834)	**(12,252,071)**	(12,039,199)
Adjustments for:					
Depreciation for property, plant and equipment		**1,123,357**	1,412,905	**1,122,998**	1,396,436
Loss on disposal of property, plant and equipment		**37,494**	584,144	**37,494**	584,144
Property, plant and equipment written off		**1,600**	16,068	**1,545**	16,068
Impairment loss for property, plant and equipment		**-**	4,283,097	**-**	4,283,097
Gain on disposal from non-current assets held for disposal		**-**	(1,642,624)	**-**	(1,642,624)
Depreciation for non-current assets held for disposal		**-**	18,786	**-**	18,786
Unrealised foreign exchange loss/(gain)		**124,210**	(645,887)	**124,210**	(645,887)
Inventories written down		**-**	317,954	**-**	317,954
Impairment loss on trade receivables		**17,760**	28,075	**17,760**	28,075
Reversal of impairment loss on trade receivables		**-**	(600)	**-**	(600)
Interest income		**(3,099)**	(5,806)	**(3,099)**	(5,806)
Impairment for unquoted investment		**112,465**	875,609	**112,465**	875,609
Interest expense		**928**	298,169	**928**	298,169
Operating cash flows before changes in working capital		**(10,845,623)**	(6,552,944)	**(10,837,770)**	(6,515,778)
Changes in working capital					
- inventories		**(4,513,155)**	5,388,143	**(4,513,155)**	5,388,143
- receivables, deposits and prepayments		**(3,861,966)**	492,670	**(3,865,934)**	486,550
- payables		**19,180,539**	(1,947,711)	**19,175,821**	(1,978,971)
Cash flows used in operations		**(40,205)**	(2,619,842)	**(41,038)**	(2,620,056)
Interest paid		**(928)**	(298,169)	**(928)**	(298,169)
Tax paid		**(50)**	(600)	**(50)**	(600)
Tax refunded		**1,200**	1,140	**1,200**	1,140
Net cash flows used in operating activities		**(39,983)**	(2,917,471)	**(40,816)**	(2,917,685)

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Investing activities					
Purchase of property, plant and equipment		**(120,753)**	(1,780)	**(120,753)**	(1,780)
Proceeds from disposal of property, plant and equipment		**92,660**	383,594	**92,660**	383,594
Proceeds from disposal of non-current assets held for disposal		**-**	2,861,067	**-**	2,861,067
Interest received		**3,099**	5,806	**3,099**	5,806
Net cash flows (used in)/from investing activities		**(24,994)**	3,248,687	**(24,994)**	3,248,687
Financing activities					
Repayment of obligations under financing leases		**(34,582)**	(67,078)	**(34,582)**	(67,078)
Repayment of term loans		**-**	(517,846)	**-**	(517,846)
Net cash flows used in financing activities		**(34,582)**	(584,924)	**(34,582)**	(584,924)
Net decrease in cash and cash equivalents		**(99,559)**	(253,708)	**(100,392)**	(253,922)
Cash and cash equivalents					
- at start of the financial year		**433,676**	687,384	**430,457**	684,379
- at end of the financial year	17	**334,117**	433,676	**330,065**	430,457

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

1 General information

The principal activities of the Company are flour milling and trading of its related products. The principal activities of the subsidiaries are described in Note 13 to the financial statements.

The business of flour operation was stopped on September 2016 and recommence on May 2017.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad.

The registered office and principal place of business 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 financial statements are presented in Ringgit Malaysia.

2 Basis of preparation of financial statements

(a) The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in the individual policy statements in Note 3 to the financial statements and comply with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

(b) The financial statements have been prepared on the assumption that the Group and the Company are going concerns. The Group and the Company incurred net losses during the financial year ended 30 September 2017 of RM12,260,338 and RM12,252,071 respectively and, as at the date, the Group and the Company had net current liabilities of RM28,977,765 and RM28,940,739 respectively and negative shareholders' funds of RM23,069,372 and RM23,025,445 respectively.

The Company had submitted its Proposed Regularisation Plan ("PRP") to Bursa Securities for approval on 29 September 2017.

The going concern assumption is highly dependent upon successful approval and implementation of the Regularisation Plan and the ability of the Group and the Company to generate sufficient cash flows to fulfil their obligation as and when fall due.

3 Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as of the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

3 Summary of significant accounting policies (continued)

(b) Non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

(c) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings, factory and civil works	20 to 50 years
Plant and machinery	10 to 30 years
Equipment and fixtures	5 years
Motor vehicles	5 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

(d) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

3 Summary of significant accounting policies (continued)

(d) Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss on goodwill is not reversed in a subsequent period.

(e) Subsidiaries

The Group controls an entity when the Group is exposed to, or has rights to, variable return from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

(f) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable to transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

The Group and the Company did not have any financial assets at fair value through profit or loss during the financial year ended 30 September 2017.

3 Summary of significant accounting policies (continued)

(f) Financial assets (continued)

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

(iii) Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

The Group and the Company did not have any held-to-maturity investments during the financial year ended 30 September 2017.

(iv) Available for sale financial assets

Available-for-sale financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be measured reliably are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirely, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

3 Summary of significant accounting policies (continued)

(g) Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the impairment account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Available for sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

- raw material: purchase costs on weighted average basis
- finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

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

3 Summary of significant accounting policies (continued)

(j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of the time is recognised as a finance cost.

k) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market's participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or, liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

(l) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities at fair value through profit or loss.

3 Summary of significant accounting policies (continued)

(l) Financial liabilities (continued)

(ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are recognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished when an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(m) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

(n) Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

(i) Sale of goods

Revenue from sale of goods is recognised upon transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

3 Summary of significant accounting policies (continued)

o) Revenue (continued)

(ii) Revenue from services

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

(iii) Dividend income

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

(iv) Interest income

Interest income is recognised using the effective interest method.

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contribution are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by 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

The Group participates in the national pension scheme as defined by law of the country in which it has operations. The Group makes contribution to the Employees Provident Fund ("EPF") in Malaysia, a defined contribution pension scheme. Contributions to defined pension schemes are recognised as an expense in the period in which the related service is performed.

(iii) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

(q) Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

3 **Summary of significant accounting policies** (continued)

(q) **Income taxes** (continued)

(ii) **Deferred tax** (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(r) **Share capital**

Ordinary shares are equity instruments. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(s) **Contingencies**

A contingent liability or asset is a possible obligation or rights that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial positions of the Group.

(t) **Foreign currency**

(i) **Functional and presentation currency**

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (''the functional currency''). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) **Foreign currency transactions**

Transactions in foreign currencies are measured in the functional currency of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period.

4 Revenue

	Group and Company	
	2017	2016
	RM	RM
Sales of flour and related products	**7,521,075**	3,874,553
Transportation income	**-**	49,641
	7,521,075	3,924,194

5 Cost of sales

	Group and Company	
	2017	2016
	RM	RM
Cost of inventories sold	**10,825,592**	8,789,619
Cost of services rendered	**-**	218,371
	10,825,592	9,007,990

6 Finance costs

	Group and Company	
	2017	2016
	RM	RM
Hire purchase	**928**	2,953
Term loan	**-**	66,730
Short term borrowing	**-**	228,486
	928	298,169

7 Loss before tax

The following items have been charged/(credited) in arriving at loss before tax:

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Auditors' remuneration				
- current year	**54,000**	54,000	**48,000**	48,000
- over accrued previous year	**(500)**	-	**-**	-
- other services	**3,000**	3,000	**3,000**	3,000
Non-executive directors' remuneration (Note 9)	**102,000**	105,000	**102,000**	105,000
Depreciation of property, plant and equipment	**1,123,357**	1,412,905	**1,122,998**	1,396,436
Loss on disposal of property, plant and equipment	**37,494**	584,144	**37,494**	584,144
Property, plant and equipment written off	**1,600**	16,068	**1,545**	16,068
Depreciation for non-current assets held for disposal	**-**	18,786	**-**	18,786
Employee benefits expense (Note 8)	**2,168,381**	2,326,399	**2,168,381**	2,326,399
Rental of land and building	**420,363**	385,948	**420,363**	385,948
Rental of software	**-**	39,000	**-**	39,000
Inventories written down	**-**	317,954	**-**	317,954
Impairment loss on trade receivables	**17,760**	28,075	**17,760**	28,075
Impairment for unquoted investment	**112,465**	875,609	**112,465**	875,609
Net foreign exchange loss/(gain):				
- Realised	**-**	(140,080)	**-**	(140,080)
- Unrealised	**124,210**	(645,887)	**124,210**	(645,887)
Gain on disposal from non-current assets held for disposal	**-**	(1,642,624)	**-**	(1,642,624)
Interest - fixed deposits	**(3,099)**	(5,806)	**(3,099)**	(5,806)
Bad debt recovered	**-**	(21,440)	**-**	(15,000)
Reversal of impairment loss on trade receivables	**-**	(600)	**-**	(600)

8 Employee benefits expense

	Group and Company	
	2017	2016
	RM	RM
Wages and salaries	**1,807,200**	1,969,364
Social security contributions	**28,678**	28,548
Pension costs - defined contribution plan	**270,478**	276,060
Other staff related expenses	**62,025**	52,427
	2,168,381	2,326,399

9 Directors' remuneration

	Group and Company	
	2017	2016
	RM	RM
Executive directors' remuneration		
- salaries and other emoluments	**-**	224,941
- pension costs - defined contribution plan	**-**	38,863
	-	263,804
Non - executive Directors (Note 7)		
- Fees	**102,000**	105,000
Total directors' remuneration (Note 22)	**102,000**	368,804

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

	Number of Directors	
	2017	2016
Executive directors:		
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	-	-
RM250,001 - RM300,000	-	1
RM300,001 - RM350,000	-	-
RM350,001 - RM400,000	-	-
Non-executive directors:		
Up to RM50,000	3	3

10 Taxation

(a) Tax charge for the year

There is no tax charge as the Group and the Company are in tax loss position.

(b) Numerical reconciliation of income tax expense

The explanation on the difference in the tax on the Group's and Company's loss and the theoretical amount that would arise using the statutory income tax rate of Malaysia is as follows:

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Loss before tax	**(12,260,338)**	(12,092,834)	**(12,252,071)**	(12,039,199)
Tax calculated at the Malaysian tax rate of 24% (2016: 24%)	**(2,942,481)**	(2,902,280)	**(2,940,497)**	(2,889,408)
Tax effect of:				
- expenses not deductible for tax purposes	**657,441**	1,341,901	**655,457**	1,329,029
- income not taxable	**-**	(1,153,621)	**-**	(1,153,621)
- deferred tax assets not recognised in respect of current year tax losses and deductible temporary differences	**2,285,040**	2,714,000	**2,285,040**	2,714,000
	-	-	**-**	-

(c) Deferred tax

Deferred tax assets have not been recognised in respect of the following items as they arose in companies with recent history of losses.

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Unused tax losses	**68,528,447**	59,161,447	**63,300,000**	53,933,000
Deductible temporary differences	**5,300,000**	4,079,000	**5,300,000**	4,079,000
Unutilised reinvestment allowances	**9,972,944**	9,972,944	**9,972,944**	9,972,944

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

11 Loss per share

Basic and diluted

Basic and diluted loss per share amounts are calculated by dividing the loss for the year, net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2017	2016
Loss net of tax attributable to owners of the Company used in the computation of basic and diluted loss per share (RM)	**(12,259,715)**	(12,092,211)
Weighted average number of ordinary shares for basic loss per share computation	**68,229,084**	68,229,084
Basic and diluted loss per share (sen)	**(17.97)**	(17.72)

12 Property, plant and equipment

Group	**Buildings, factory and civil works RM**	**Plant and machinery RM**	**Equipment and fixtures RM**	**Motor vehicles RM**	**Total RM**
Cost					
At 30 September 2015	9,866,149	37,373,614	4,641,137	6,456,271	58,337,171
Addition	-	-	-	1,780	1,780
Disposal	-	-	(2,980)	(3,741,073)	(3,744,053)
Written off	(69,804)	(275,149)	(236,158)	(1,962,086)	(2,543,197)
At 30 September 2016	9,796,345	37,098,465	4,401,999	754,892	52,051,701
Addition	**-**	**61,547**	**59,206**	**-**	**120,753**
Disposal	**-**	**-**	**-**	**(554,048)**	**(554,048)**
Written off	**-**	**-**	**(397,921)**	**(32,508)**	**(430,429)**
At 30 September 2017	**9,796,345**	**37,160,012**	**4,063,284**	**168,336**	**51,187,977**

12 Property, plant and equipment (continued)

Group (continued)	Buildings, factory and civil works RM	Plant and machinery RM	Equipment and fixtures RM	Motor vehicles RM	Total RM
Accumulated depreciation and Impairment losses					
At 30 September 2015	6,208,052	29,298,786	4,245,651	5,226,797	44,979,286
Charge for the year	249,282	909,736	132,426	121,461	1,412,905
Written off	(69,804)	(275,149)	(240,041)	(1,942,135)	(2,527,129)
Impairment losses recognised	1,729,204	2,553,893	-	-	4,283,097
Disposal	-	-	(1,919)	(2,774,396)	(2,776,315)
Reclassification	-	11,593	26,107	(37,700)	-
At 30 September 2016	8,116,734	32,498,859	4,162,224	594,027	45,371,844
Charge for the year	**199,863**	**823,187**	**95,105**	**5,202**	**1,123,357**
Written off	**-**	**-**	**(397,866)**	**(30,963)**	**(428,829)**
Disposal	**-**	**-**	**-**	**(423,894)**	**(423,894)**
At 30 September 2017	**8,316,597**	**33,322,046**	**3,859,463**	**144,372**	**45,642,478**
Net carrying amount					
At 30 September 2016	1,679,611	4,599,606	239,775	160,865	6,679,857
At 30 September 2017	**1,479,748**	**3,837,966**	**203,821**	**23,964**	**5,545,499**

Company	Buildings, factory and civil works RM	Plant and machinery RM	Equipment and fixtures RM	Motor vehicles RM	Total RM
Cost					
At 30 September 2015	9,796,345	37,098,465	4,169,660	4,254,637	55,319,107
Additions	-	-	-	1,780	1,780
Written off	-	-	(162,602)	(1,204,647)	(1,367,249)
Disposal	-	-	(2,980)	(2,296,878)	(2,299,858)
At 30 September 2016	9,796,345	37,098,465	4,004,078	754,892	51,653,780
Additions	**-**	**61,547**	**59,206**	**-**	**120,753**
Written off	**-**	**-**	**-**	**(32,508)**	**(32,508)**
Disposal	**-**	**-**	**-**	**(554,048)**	**(554,048)**
At 30 September 2017	**9,796,345**	**37,160,012**	**4,063,284**	**168,336**	**51,187,977**

12 Property, plant and equipment (continued)

Company (continued)	Buildings, factory and civil works RM	Plant and machinery RM	Equipment and fixtures RM	Motor vehicles RM	Total RM
Accumulated depreciation and Impairment losses					
At September 2015	6,138,248	29,035,230	3,817,164	2,987,463	41,978,105
Charge for the year	249,282	909,736	115,957	121,461	1,396,436
Written off	-	-	(166,485)	(1,184,696)	(1,351,181)
Impairment losses recognised	1,729,204	2,553,893	-	-	4,283,097
Disposal	-	-	(1,919)	(1,330,201)	(1,332,120)
At 30 September 2016	8,116,734	32,498,859	3,764,717	594,027	44,974,337
Charge for the year	**199,863**	**823,187**	**94,746**	**5,202**	**1,122,998**
Written off	**-**	**-**	**-**	**(30,963)**	**(30,963)**
Disposal	**-**	**-**	**-**	**(423,894)**	**(423,894)**
At 30 September 2017	**8,316,597**	**33,322,046**	**3,859,463**	**144,372**	**45,642,478**
Net carrying amount					
At 30 September 2016	1,679,611	4,599,606	239,361	160,865	6,679,443
At 30 September 2017	**1,479,748**	**3,837,966**	**203,821**	**23,964**	**5,545,499**

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 the year-end is as follows:

	Group and Company	
	2017 RM	2016 RM
Not later than 1 year	**354,866**	354,865
Later than 1 year and not later than 5 years	**1,581,847**	940,358
Later than 5 years	**2,384,136**	3,380,491
	4,320,849	4,675,714

13 Investments in subsidiaries

	Company 2017 RM	Company 2016 RM
Unquoted shares, at cost	**1,346,108**	1,346,108
Less: Accumulated impairment losses	**(1,340,999)**	(1,340,999)
	5,109	5,109

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Proportion (%) of ownership interest 2017 %	Proportion (%) of ownership interest 2016 %	Principal activities
KFM Transport Sdn Bhd	Malaysia	**100**	100	Dormant
KFM Marketing Sdn Bhd	Malaysia	**100**	100	Dormant
KFM Ventures Sdn Bhd	Malaysia	**100**	100	Dormant
KFM Biotechnology Sdn Bhd	Malaysia	**100**	100	Dormant
KFM Industries Sdn Bhd	Malaysia	**100**	100	Dormant
KFM Trading Sdn Bhd	Malaysia	**51**	51	Dormant

All subsidiaries are audited by McMillan Woods Thomas.

14 Other investment

	Group and Company 2017 RM	Group and Company 2016 RM
Available-for-sale financial asset		
Unquoted shares, at cost	**1,735,501**	1,735,501
Impairment loss	**(1,370,815)**	(1,258,350)
	364,686	477,151

15 Inventories

	Group and Company 2017 RM	Group and Company 2016 RM
Cost		
Raw material	**4,370,442**	-
Finished goods	**47,695**	15,015
Consumables	**349,390**	366,349
	4,767,527	381,364
Net realisable value		
Finished goods	**126,992**	-
	4,894,519	381,364

16 Receivables, deposits and prepayments

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Trade receivables - third parties	**1,042,035**	354,007	**898,837**	210,809
Less: Impairment loss	**(335,971)**	(318,211)	**(192,775)**	(175,015)
	706,064	35,796	**706,062**	35,794
Other receivables	**909,970**	567,028	**909,970**	567,027
Less: Impairment loss	**(500,000)**	(500,000)	**(500,000)**	(500,000)
	409,970	67,028	**409,970**	67,027
Amounts due from subsidiaries	**-**	-	**30,243**	26,276
Advance for purchase	**2,860,292**	-	**2,860,292**	-
Deposits	**40,876**	24,716	**40,876**	24,716
Prepayments	**87,933**	133,389	**87,933**	133,389
	4,105,135	260,929	**4,135,376**	287,202

Trade receivables are non-interest bearing and are generally on 7 to 90 days (2016: 7 to 90 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

16 Receivables, deposits and prepayments (continued)

Ageing analysis of trade receivables

The ageing analysis of the Group's and the Company's trade receivables are as follows:

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Neither past due nor impaired	**707,318**	-	**707,318**	-
1 to 30 days past due not impaired	**(14,685)**	-	**(14,685)**	-
31 to 60 days past due not impaired	**13,001**	-	**13,001**	-
61 to 90 days past due not impaired	**(3,130)**	-	**(3,130)**	-
More than 90 days past due not impaired	**3,560**	35,796	**3,558**	35,794
	(1,254)	35,796	**(1,256)**	35,794
Impaired	**335,971**	318,211	**192,775**	175,015
	1,042,035	354,007	**898,837**	210,809

Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group and the Company have trade receivables amounting to RM3,560 (2016: RM35,796) and RM3,558 (2016: RM35,794) respectively that are past due at reporting date but not impaired.

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit. The credit period is generally between 7 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk. As at 30 September 2017, the Directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are still considered fully recoverable.

16 Receivables, deposits and prepayments (continued)

Trade receivables that is impaired

The Group and the Company's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	Individually impaired			
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Trade receivables				
- nominal amount	**335,971**	318,211	**192,775**	175,015
Less: Impairment losses	**(335,971)**	(318,211)	**(192,775)**	(175,015)
	-	-	**-**	-

Movement in allowance accounts:

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
At start of the financial year	**318,211**	303,636	**175,015**	160,440
Charge for the financial year	**17,760**	28,075	**17,760**	28,075
Written off	**-**	(12,900)	**-**	(12,900)
Reversal of impairment losses	**-**	(600)	**-**	(600)
At end of the financial year	**335,971**	318,211	**192,775**	175,015

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Other receivable that is impaired

At the reporting date, the Company has provided an allowance of RM500,000 (2016: RM500,000) for impairment of the amount due from a third party with a nominal amount of RM500,000 (2016: RM500,000).

There has been no movement in this allowance account for the financial year ended 30 September 2017 (2016: RM500,000).

17 Cash and cash equivalents

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Deposits with licensed banks	**130,000**	240,000	**130,000**	240,000
Cash and bank balances	**204,117**	193,676	**200,065**	190,457
Deposits, cash and bank balances	**334,117**	433,676	**330,065**	430,457
Deposits pledged as security	**(130,000)**	(240,000)	**(130,000)**	(240,000)
	204,117	193,676	**200,065**	190,457

The effective weighted average interest rate of the deposits at the end of the year was as follows:

	Group and Company	
	2017	2016
	%	%
Deposits with licensed banks	**3.15**	3.45

18 Payables

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Trade payables	**25,411,732**	13,006,801	**25,400,543**	12,995,612
Other payables	**11,421,977**	5,204,395	**11,421,977**	5,204,395
Accruals	**638,860**	780,832	**632,860**	774,332
Advance for sales	**824,208**	-	**824,208**	-
Amounts due to subsidiaries	**-**	-	**6,352**	11,570
	38,296,777	18,992,028	**38,285,940**	18,985,909

Trade payables and other payable with amounts of RM25,071,643 (2016: NIL) and RM8,359,561 (2016: NIL) respectively in the Group and Company will be settled based on regulation plan (Note 31(g)).

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2016: 30 to 90 days) except for as stated above.

The amounts due to subsidiaries are unsecured, non-interest bearing and are repayable on demand.

19 Borrowings

	Group and Company	
	2017	2016
	RM	RM
Current		
Finance leases	**-**	29,944
Non-current		
Finance leases	**-**	4,638
Total borrowings	**-**	34,582

The remaining maturities of the borrowings as at 30 September are as follows:

	Group and Company	
	2017	2016
	RM	RM
On demand within one year	**-**	29,944
More than 1 year and less than 2 years	**-**	4,638
	-	34,582

20 Share capital

	2017	2016
	Unit	Unit
Issued and fully paid ordinary shares		
At start and end of the financial year	**68,229,084**	68,229,084

Pursuant to the Companies Act, 2016 effective from 31 January 2017, the concept of authorised share capital and par value has been abolished.

Ordinary shares of the Company have no par value. The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

21 Share premium

	2017	2016
	RM	RM
At start of the financial year	**30,825**	30,825
Transfer to share capital pursuant to Companies Act, 2016	**(30,825)**	-
At end of the financial year	**-**	30,825

Transfers to share capital account pursuant to the transitional provisions set out in Section 618(2) of the Companies Act, 2016 in Malaysia.

22 Significant related party disclosures

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	Group and Company	
	2017	2016
	RM	RM
Short term employee benefits	**581,880**	858,502
Post-employment benefits: Defined contribution plan	**80,134**	126,612
	662,014	985,114
Included in the total key management personnel are:		
Directors' remuneration (Note 9)	**102,000**	368,804

23 Commitments

(a) Operating lease commitment - as lessee

Information regarding the operating lease in relation to lease of land for the factory is disclosed in Note 12.

(b) Finance lease commitments

The Group has finance leases for certain items of property, plant and equipment (Note 12). These leases do not have terms of renewal, but have purchase options at nominal values at the end of the lease term.

Future minimum lease payments under finance leases together with the present value of the net minimum payments are as follows:

	Group and Company	
	2017	2016
	RM	RM
Minimum lease payments		
Not later than 1 year	-	30,845
Later than 1 year and not later than 2 years	-	4,665
Total minimum lease payments	-	35,510
	-	(928)
	-	34,582
Present value of payments		
Not later than 1 year	-	29,944
Later than 1 year and not later than 2 years	-	4,638
Present value of minimum lease payments	-	34,582
Less amount due within 12 months	-	(29,944)
Amounts due after 12 months	-	4,638

24 Fair value of financial instruments

(a) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

	Group and Company			
	2017		2016	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Financial assets:				
Unquoted shares	**364,686**	*	477,151	*

*Fair value information has not been disclosed for the Group's investment in equity instrument that is carried at cost because fair value cannot be measured reliably. This equity instrument represents ordinary shares that is not quoted on any market and does not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant.

(b) Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables	16
Trade and other payables	18

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, due to their short-term in nature.

25 Financial risk management objectives and policies

The Group and Company are exposed to financial risks arising from their operations and use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer and management. The audit committee provides independent oversight to the effectiveness of the risks management process.

It is, and has been throughout the current and previous financial period, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

25 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date is as follows:

	Group			
	2017		2016	
	RM	**% of total**	RM	% of total
By country:				
Malaysia	**706,064**	**100.0**	35,796	100.0

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 16. Deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 16.

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposures to liquidity risk arise primarily from mismatches of the maturities of financial assets and liabilities. The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met.

The Group's overall liquidity risk management is to maintain 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. As far as possible, the Group raises funding from shareholders, capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

Group - 2017 **Financial liabilities**	**On demand or within one year** **RM**	**1 to 5 years** **RM**	**Total** **RM**
Trade and other payables	36,833,709	-	**36,833,709**
Accruals	638,860	-	**638,860**
Total undiscounted financial liabilities	37,472,569	-	**37,472,569**
Company - 2017	**RM**	**RM**	**RM**
Trade and other payables	36,822,520	-	**36,822,520**
Accruals	632,860	-	**632,860**
Total undiscounted financial liabilities	37,455,380	-	**37,455,380**

25 Financial risk management objectives and policies (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from its loans and borrowings.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

<u>Sensitivity analysis for interest rate risk</u>

At the reporting date, if interest rates had been 100 basis points lower/higher, with all other variables held constant, the Group's loss net of tax would remain unchanged because all term loans of the Group have been fully repaid in December 2015 and August 2016.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposure arising from sales or purchase that are denominated in a currency other than the functional currency of the Group ie RM. The foreign currencies in which these transactions are denominated are mainly United States Dollars ("USD").

Approximately NIL (2016: NIL) and NIL (2016: 62.86%) of the Group's sales and costs are denominated in foreign currencies. The Group's trade receivable and trade payable balances at the reporting date have similar exposures.

<u>Sensitivity analysis for foreign currency risk</u>

The following table demonstrates the sensitivity of the Group's and the Company's loss net of tax to a reasonably possible change in the USD exchange rate against the functional currency of the Group entities with all other variables held constant.

	Group and Company Impact on loss net of tax Decrease/(Increase) RM
USD/RM – strengthened 5%	**NIL**
USD/RM – weakened 5%	**NIL**

26 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at a reasonable level. Included in the Group net debt are loans and borrowings, trade and other payables, less cash and bank balances. Capital includes equity attributable to owners of the parent.

26 Capital management (continued)

	Group		Company	
	2017	2016	**2017**	2016
	RM	RM	**RM**	RM
Borrowings	**-**	34,582	**-**	34,582
Trade and other payables	**37,472,569**	18,992,028	**37,461,732**	18,985,909
Less: Deposits, cash and bank balances	**(334,117)**	(433,676)	**(330,065)**	(430,457)
Net debt	**37,138,452**	18,592,934	**37,131,667**	18,590,034
Equity attributable to owners of the Company	**(23,069,372)**	(10,809,657)	**(23,025,445)**	(10,773,374)
Capital and net debt	**14,069,080**	7,783,277	**14,106,222**	7,816,660
Gearing ratio	**264%**	239%	**263%**	238%

27 Segmental information

Geographical information

Revenue information based on the geographical location of customers is as follows:

	Revenue	
	2017	2016
	RM	RM
Malaysia	**7,521,075**	3,924,194

No segmental analysis by business segment had been prepared as the operations of the Group are principally flour milling and trading of its related products. The other activities are not significant to the Group.

28 Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements made in applying accounting policies

There were no significant judgements made in applying the accounting policies of the Group which may have significant effects on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

28 Significant accounting judgements and estimates (continued)

Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful live. Management estimates the useful lives of these plant and machinery to be 10 to 30 years. These are common life expectancies applied for the assets owned by the Group. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Impairment on property, plant and equipment

The Group assesses whether there are indicators of impairment for all its assets at the end of the reporting year. The assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Group engaged an independent valuer (the Valuer) to perform a valuation on property, plant and equipment. The Valuer valued property, plant and equipment using market value method. The values of the property, plant and equipment under the market value method are based on "as is where is" basis. The valuation has taken into consideration the cost of replacement, respective ages, estimated remaining life, intensity of use, the state of repair and current prices for similar used property.

29 Adoption of new and revised Malaysian Financial Reporting Standards and Interpretations

During the financial year, the Group has adopted the following new and revised Malaysian Financial Reporting Standards and Interpretations (collectively referred to as 'MFRSs'), issued by the Malaysian Accounting Standards Board ('MASB') and effective for the financial periods beginning on or after 1 January 2016:

MFRSs that do not have significant impacts on these financial statements

The following new and revised MFRSs issued by the MASB, effective for financial periods beginning on or after 1 January 2016, have been adopted, but the adoptions do not have a significant impact on the financial statements:

Effective for financial period beginning on or after 1 January 2016

Amendments to MFRS 10, MFRS 12, MFRS 128	Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
MFRS 14	Regulatory Deferral Accounts
MFRS 101	Disclosure Initiative
Amendments to MFRS 116, MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116, MFRS 141	Agriculture: Bearer Plants
Amendments to MFRS 127	Equity Method in Separate Financial Statements

Annual Improvements to MFRSs 2012 – 2014 Cycle:

Amendment to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendment to MFRS 7	Financial Instruments: Disclosures
Amendment to MFRS 119	Employee Benefits
Amendment to MFRS 134	Interim Financial Reporting

30 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, Amendments and Issue Committee ("IC") Interpretations have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective and have not been adopted by the Group.

<u>Effective for financial period beginning on or after 1 January 2017</u>

Amendments to MFRS 107	Disclosure Initiative
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to MFRSs 2014-2016 Cycle:	
Amendments to MFRS 12	Disclosure of Interests in Other Entities

<u>Effective for financial period beginning on or after 1 January 2018</u>

MFRS 9	Financial Instruments (IFRS 9 as issued by IASB in July 2014)
MFRS 15	Revenue from Contracts with Customers
MFRS 15	Clarification to MFRS 15
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 140	Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRSs 2014-2016 Cycle:	
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
Amendments to MFRS 128	Investments in Associates and Joint Ventures

<u>Effective for financial period beginning on or after 1 January 2019</u>

MFRS 16	Leases

<u>Effective for financial period beginning on or after 1 January 2021</u>

MFRS 17	Insurance Contracts

31 Significant events during the financial year

(a) On 19 October 2016 the warrant issued by the Company had expired and delisted on 20 October 2016

(b) On 9 December 2016, the Company secured a Letter of Interest (LOI) from Felcra Bhd on its interest to explore and possibility to participate in the Company's equity

(c) On 13 December 2016 and 28 December 2016, the Company has applied to Bursa Malaysia to seek for extension of time for 6 months on PN17 status to finalise its regularisation plan and the outcome of Bursa Malaysia's decision on its application for extension of time to submit its regulation plan is still pending

(d) On 14 December 2016, the Company had received a letter from Felcra Bhd informing that they are retracting their register of interest and ceasing all exploratory pursuit to participate in the Company's equity

(e) On 27 December 2016, the Company has entered into a Memorandum of Understanding (MOU) with Lotus Essential Sdn Bhd (Lotus). As part of the Company proposal to restructure its debts and reconstruct its business, the Company is proposing to, amongst others to carry out an equity fund raising exercise via a rights issue and special issue of shares and cooperate and collaborate with Lotus to carry out flour milling activities and trading of flour and food related products

31 Significant events during the financial year (continued)

(f) On 29 March 2017, the Company has:

(I) entered into a business collaboration agreement with Lotus; and

(II) also propose to undertake the following proposals to regularise its financial conditions:

- proposed private placement of 20,467,000 new ordinary shares in the Company to a placement investor;
- proposed renounceable rights issue of up to 221,740,210 new shares of the Company on the basis of five Rights Shares for every two shares held on an entitlement date to be determined later; and
- proposed restructuring of debts owing by the Company to its creditors.

(g) On 28 September 2017, the Company had on this date:

(I) entered into the debt settlement agreement with the respective Scheme Creditors to vary the terms of the previous proposed restructuring of debts under the Initial Proposals; and
(II) entered into a debt conversion agreement with Lotus Essential Sdn Bhd (Lotus) to settle RM15 million of the advances and supplier's credit extended by Lotus via the issuance of 150,000,000 redeemable convertible preference shares (RCPS).

In relation to the above, the Initial Proposals have been revised in the following manner:
i. proposed private placement of 27,290,000 new shares of the Company to the Placement Investor at an issue price of RM0.10 per Placement Share;
ii. proposed restructuring of debts owing by the Company to: the Scheme Creditors pursuant to Proposed Debt Settlement; and Lotus pursuant to Proposed Debt Conversion;
iii. proposed renounceable rights issue of up to 477,595,420 Rights Shares at an issue price of RM0.10 per Rights Share on the basis of five Rights Shares for every one KFM share held following the Proposed Private Placement on the Entitlement Date, together with up to 238,797,710 free detachable warrants on the basis of one warrant for every two Rights Shares subscribed for;
iv. proposed amendments to the Articles of Association of the Company's Constitution to facilitate the issuance of RCPS pursuant to the Proposed Debt Conversion.

(h) On 29 September 2017, the application in relation to the Proposed Regularisation Plan has been submitted to Bursa Securities for approval.

32 Approval of financial statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 11 January 2018.

33 Supplementary information on the breakdown of realised and unrealised profits and losses

The breakdown of the retained profits of the Group and of the Company as at 30 September 2017, into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by Malaysian Institute of Accountants.

	Group 2017 RM	Company 2017 RM
Total accumulated losses of the Company and its subsidiaries		
Realised	**(24,814,697)**	(26,969,790)
Unrealised	**502,066**	502,066
Less: Consolidation adjustments	**(2,199,020)**	-
Accumulated losses as per financial statements	**(26,511,651)**	(26,467,724)

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Kuantan flour Mills Berhad, which comprise the statements of profit or loss and other comprehensive income, the statements of financial position as at 30 September 2017 of the Group and of the Company, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 29 to 63.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 September 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Qualified Opinion

The Group and the Company incurred net losses during the financial year ended 30 September 2017 of RM12,260,338 and RM12,252,071 respectively and, as at that date, the Group and the Company had net current liabilities of RM28,977,765 and RM28,940,739 respectively and negative shareholders' funds of RM23,069,372 and RM23,025,445 respectively.

The Company had submitted its Proposed Regularisation Plan ("PRP") to Bursa Securities for approval on 29 September 2017. Till to date the PRP has yet to be approved by Bursa Malaysia Securities Berhad and this situation indicates the existence of a material uncertainty that may cast significant doubt on the Group and the Company ability to continue as a going concern and therefore the Group and the Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical Responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for matters that has been described in the Basis for Qualified Opinion section, we have determined that there are no key audit matters to communicate in our report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

Other reporting responsibilities

The supplementary information set out in Note 33 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

McMillan Woods Thomas
(AF 001879)
Chartered Accountants

Chong Loong Choy
[2589/08/18(J)]
Partner of the firm

Kuantan 16 January 2018

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Class of share	:	Ordinary shares
Share Capital	:	Issued and fully paid RM3,442,279
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	%
Dennis Tow Jun Fye	9,606,000	14.080	-	-
Neo Kim Hock	4,657,400	6.826	-	-

	No. of Holders		No. of Shares		%	
SIZE OF HOLDINGS	MALAYSIAN	FOREIGN	MALAYSIAN	FOREIGN	MALAYSIAN	FOREIGN
Less Than 100	83	2	1,739	59	0.00	0.00
100 - 1000	962	8	906,895	6,800	1.33	0.01
1001 - 10000	1,447	16	6,027,725	76,700	8.83	0.11
10001 - 100000	398	14	13,526,866	412,200	19.83	0.60
100001 and below 5%	72	5	30,876,700	2,315,700	45.25	3.39
5% and above	2	0	14,077,700	-	20.63	0.00
	2,964	45	65,417,625	2,811,459	95.88	4.12

DIRECTOR'S INTEREST IN THE COMPANY AND ITS RELATED CORPORATIONS

The Company – Kuantan Flour Mills Berhad

Name of Director	Direct Interest	%	No. of Shares Deemed Interest	%
Kushairi bin Zaidel	-	-	-	-
Leong Chen Nyen	-	-	-	-
Iskandar Zurkanain bin Mohamed	-	-	-	-

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

THIRTY LARGEST SHAREHOLDERS

NO.	NAMES	NO. OF SHARES	%
1	DENNIS TOW JUN FYE	9,606,000	14.08
2	NEO KIM HOCK	4,471,700	6.55
3	LIM WILLIE	3,300,000	4.84
4	LEE CHAI HUAT	2,180,000	3.20
5	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD	2,000,000	2.93
6	LIM SAM KEOW	1,714,200	2.51
7	LAW CHEE KHEONG	1,082,700	1.59
8	CITIGROUP NOMINEES (ASING) SDN BHD	959,700	1.41
9	TAN HOOK BENG	900,000	1.32
10	WONG MUN CHEN	900,000	1.32
11	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD	858,200	1.26
12	LEE KA SOON	847,400	1.24
13	AMSEC NOMINEES (TEMPATAN) SDN BHD	833,000	1.22
14	ROZANA BINTI REDZUAN	752,700	1.10
15	CIMSEC NOMINEES (ASING) SDN BHD	722,500	1.06
16	CHAN WAI KIM	530,000	0.78
17	WONG HUEY PING	515,000	0.75
18	MAYBANK NOMINEES (TEMPATAN) SDN BHD	500,000	0.73
19	KOH KIM HEOK	490,000	0.72
20	TAN SIOW HWEE	485,000	0.71
21	HOO YEEK FOO	463,000	0.68
22	CHONG FONG TAI	461,000	0.68
23	ONG MUM TONG	450,000	0.66
24	SIM SOH POW	440,000	0.64
25	LEE WAI FONG	422,000	0.62
26	WONG TIN WOOI	420,000	0.62
27	CHONG HUP CHING	400,000	0.59
28	GOH LEE HIAN	400,000	0.59
29	LAM HUAT TIN	400,000	0.59
30	LIM SENG CHEE	400,000	0.59
		37,904,100	55.55

LIST OF PROPERTIES HELD BY THE GROUP as at 30 September 2017

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 Carrying Amount RM'000
Pajakan Negeri 550 Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	21 years and 3.5 months lease expiring on 30 December 2027	15-Sep-85	25,425 sq. metres	Office and Factory	32 years and 25 years	382 769
Pajakan Negeri 550 Lot 1863 Mukim Sungai Karang, Kuantan, Pahang.	17 years and 7 months lease expiring on 30 December 2027	1-Jun-10	4,253 sq. metres	Wheat silos	15 years	1,402

NOTICE IS HEREBY GIVEN that the Thirty–Three Annual General Meeting of the Company will be held at the Casuarina Hall, Swiss Garden Beach Resort, 2656–2657, Mukim Sungai Karang, Balok Beach, 26100 Beserah, Kuantan, Pahang, Malaysia on Tuesday, 27 February 2018 at 3.00 p.m. for the purpose of transacting the following businesses: -

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the year ended 30 September 2017 together with the Reports of the Directors and Auditors thereon. (Refer to Note 7)

2. To approve the payment of Directors' fees for the financial year ended 30 September 2017. (Resolution 1)

3. To re-elect as Director, Kushairi bin Zaidel , who retires by rotation in accordance with Company's Constitution (Article 63 of the Company's Articles of Association as adopted before the commencement of the Companies Act 2016) and, being eligible, offers himself for re-election. (Resolution 2)

4. To re-appoint Messrs. McMillan Woods Thomas (Audit Firm No.AF001879) as the Company's Auditors and to authorise the Directors to fix their remuneration. (Resolution 3)

AS SPECIAL BUSINESS

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

5. Ordinary Resolution
Retention of Kushairi bin Zaidel as Independent Non-Executive Director (Resolution 4)
" That subject to the passing of Resolution 2, Kushairi bin Zaidel, whose tenure on the Board exceeds a cumulative term of more than nine (9) years be and is hereby retained as Independent Non-Executive Director of the Company." (Refer to Note 8)

6. Ordinary Resolution
Retention of Leong Chen Nyen as Independent Non-Executive Director (Resolution 5)
" That Leong Chen Nyen , whose tenure on the Board exceeds a cumulative term of more than nine (9) years be and is hereby retained as Independent Non-Executive Director of the Company." (Refer to Note 8)

7. Ordinary Resolution
Authority to allot and issue shares pursuant to Section 75 & 76 of the Companies Act, 2016 (Resolution 6)
"That pursuant to Sections 75 & 76 of the Companies Act, 2016 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." (Refer to Note 9)

8. To transact any other business of which due notice shall have been given in accordance with the Companies Act 2016.

BY ORDER OF THE BOARD,

Laang Jhe How (MIA 25193)
Tan Kah Koon (MAICSA 7066666)
Company Secretary

Kuala Lumpur
30 January 2018

Notes:

1. Only a member whose name appears on the Record of Depositors as at 20 February 2018 shall be entitled to attend the meeting and to speak and vote thereat. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company.

2. A member may appoint one or more than one proxy to attend and vote instead of the member. Where a member appoints two or more proxies, the appointments shall be invalid unless the member 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 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 Form of Proxy.

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.

6. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in this Notice shall be put to vote by poll.

Explanatory Notes on Ordinary Business

7. **Audited Financial Statements for the financial year ended 30 September 2017 and the Reports of the Directors and Auditors thereon**
   This agenda is tabled for discussion only as the provision of Section 340(1) of the Companies Act, 2016 does not require a formal approval of the shareholders and hence is not put forward for voting.

Explanatory Notes on Special Business

8. **Retention of Independent Non-Executive Directors**
   Pursuant to the Malaysian Code on Corporate Governance 2012, the Board of Directors has vide the Nomination Committee, conducted an assessment to assess the independence of Kushairi bin Zaidel and Leong Chen Nyen, who have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years and has recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:

   Full details of the Board's Justifications for the retention of Kushairi bin Zaidel and Leong Chen Nyen is set out in the Statement of Corporate Governance in the 2017 Annual Report.

9. **Authority to allot and issue shares pursuant to Section 75 & 76 of the Companies Act, 2016**
The General Mandate pursuant to Resolution 6 will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s), working capital and / or acquisitions.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 27 February 2017 and which will lapse at the conclusion of the forthcoming Annual General Meeting.

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

Statement Accompanying the Notice of Annual General Meeting
Pursuant to Paragraph 8.27(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

Name of Director who is standing for Re-election accordance to Company's Constitution (Article 63 of the Company's Articles of Association as adopted before the commencement of the Companies Act 2016):
- Kushairi bin Zaidel

The details of the Directors who are standing for re-election /re-appointment are set out in the Directors' Profile on page 22 and their securities holdings in the Company are set out in the Statistics on Shareholdings on pages 67 to 68 of this Annual Report.

The Annual Report 2017 of the Company is in CD-ROM format.

A printed copy of the Annual Report 2017 shall be provided to the shareholders within four (4) market days from the date of receipt of their written request to:

Attention : Lum Mei Hoo
Kawasan Lembaga Pelabuhan Kuantan
KM25, Jalan Kuantan/Kemaman
Tanjung Gelang
25740 Kuantan
Fax to 609-5833618

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 Thirty-Three Annual General Meeting of the Company to be held on Tuesday, 27 February 2018 and at any adjournment thereof. My/our proxy is to vote as indicated below: -

ORDINARY BUSINESS	FOR	AGAINST
1. Approval of Directors' fees for the year ended 30 September 2017		
2. Re-election of Director, Kushairi bin Zaidel		
3. Re-appointment of Messrs. McMillan Woods Thomas (Audit Firm No.AF001879) as Auditors and to authorize the Directors to fix their remuneration		
SPECIAL BUSINESS		
4. Retention of Independent Non-Executive Director, Kushairi bin Zaidel		
5. Retention of Independent Non-Executive Director, Leong Chen Nyen		
6. Authorise the Directors to issue shares pursuant to Sections 75 & 76 of the Companies Act, 2016		

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

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

First Named Proxy	%
Second Named Proxy	%
	100 %

Signed this ____________ Day of ______________, 2018.

CDS account no:
Number of shares held :

____
Signature or Common Seal of Shareholder

Notes:

1. Only a member whose name appears on the Record of Depositors as at 20 February 2018 shall be entitled to attend the meeting and to speak and vote thereat. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company.

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AFFIX 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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KUANTAN FLOUR MILLS BERHAD
(119598-P)