

# Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report of Malayan Flour Mills Berhad ("MFM") for the financial year ended 31 December 2011.



## Review of Performance

In spite of the very challenging operating environment, MFM managed to achieve record revenue of RM1.9 billion as compared to RM1.6 billion registered in the previous financial year. This was attributable to higher sales from the feeds and trading of feed ingredients as well as the poultry integration segments.

The profit before tax recorded for 2011 was however 19% lower at RM103.6 million due to higher raw material costs which resulted in lower margins.

Arising from the volatility of the commodity costs and the low selling prices of our products due to the competitive state of the market, the Group had to provide for a write down in inventories amounting to RM11.1 million.

The performance of the flour milling business in 2011 was affected adversely by high raw material costs resulting in lower profit margins for the flour products. The profit before tax had decreased by 35% to RM73.5 million as compared to the previous year. The flour milling business remains a key component of the Group's profitability. The project to enlarge our manufacturing, packaging and warehousing facilities in Malaysia is scheduled to be completed this year.

In line with MFM's vision to be a leading food manufacturing enterprise in the region, and to leverage on the long term potential of the food business, the Group had on 5 October 2011 entered into a Shareholders' Agreement with PT FKS Capital (FKS), Toyota Tsusho Corporation, Toyota Tsusho (Singapore) Pte Ltd and PT



Toyota Tsusho Indonesia to establish a joint venture company named PT Bungasari Flour Mills Indonesia for the purpose of carrying out the business of flour milling and distribution of flour products and by-products in Indonesia. The related companies of FKS are mainly involved in the trading of soybean, soybean meal and corn as well as the manufacturing and sales of sugar and corn starch. The joint venture will enable the Group to grow further in economy of scale as well as enhance the efficiency of the business.

The feeds and trading in related raw material business registered a revenue growth of 33% to RM586.5 million in 2011 contributed by higher demand for poultry and aqua feeds products and incremental sales from the trading of grains. However, higher raw material costs had lowered the profit margin and this resulted in a lower profit before tax of RM9.4 million being achieved as compared to RM11.0 million in the prior year.

The poultry integration business registered record profit before tax of RM17.3 million following a turnaround in its performance in 2010. This was attributed to improved operational efficiency and higher selling prices of poultry products. We plan to grow the business further by expanding our broiler, breeder and further processed poultry products capacities.

## **Corporate Development**

The following Proposals were approved by our shareholders at the Extraordinary General Meeting held on 19 October 2011:

- a) Proposed Share Split involving the subdivision of every 1 existing ordinary share of RM1.00 each ("MFM Share(s)") in Malayan Flour Mills Berhad ("MFM" or "the Company") into 2 new ordinary shares of RM0.50 each in MFM ("Subdivided MFM Shares");
- b) Proposed Renounceable Rights Issue of 215,289,212 new Subdivided MFM Shares ("Rights Shares (s)") at 93 sen per Rights Share together with 107,644,606 Free Detachable New Warrants ("Warrant(s)") and 107,644,606 New Subdivided MFM Shares ("Bonus Shares") attached on the basis of 2 Rights Shares together with 1 Warrant and 1 Bonus Share for every 2 Subdivided MFM Shares held after the Proposed Share Split;
- c) Proposed increase in authorized share capital from RM200,000,000 comprising 200,000,000 MFM Shares to RM500,000,000 comprising 1,000,000,000 Subdivided MFM Shares; and
- d) Proposed amendments to the Memorandum and Articles of Association of the Company in relation to the above Proposals.

The Proposed Share Split, Proposed increase in authorized share capital and Proposed amendments to the Memorandum and Articles of Association have been completed whilst the rest of the Proposals are pending completion.



## *Chairman's Statement (cont'd)*

### **Outlook**

In view of our continuous efforts in growing economies of scale and cost reduction through operational efficiencies as well as leveraging on our competitive advantages, we believe our Group is well positioned for further growth.

### **Dividend**

In view of the Proposed Declaration and Payment of Special Dividend of 62 sen per Subdivided MFM Share less 25% income tax to the entitled shareholders of MFM which is part of the Proposals mentioned above, the Board of Directors do not recommend any dividend for the financial year ended 31 December 2011.

### **Appreciation**

On behalf of the Board of Directors, I would like to extend our sincere appreciation to the management and employees at all levels in the Group for their contribution and support as we work towards achieving our vision of being a leading food manufacturing enterprise in the region.

We would also like to thank you, our shareholders, as well as our customers, suppliers, bankers, business associates, government agencies and regulatory authorities, for the unwavering support and cooperation during the year.

### **Tan Sri Dato' Seri Arshad bin Ayub**

Chairman

Kuala Lumpur  
19 March 2012

