



"On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report of Malayan Flour Mills Berhad ('MFM') for the financial year ended 31st December 2007."

REVIEW OF PERFORMANCE

The Group had reached a new milestone in 2007 with a profit before tax of RM64.0 million on the back of record revenue of RM1.0 billion. This represents an increase of 46% over the profit before tax of RM43.5 million and 30% above the revenue of RM794.2 million reported in 2006. This was attributable to the timely purchase of raw materials, amidst surging historically high commodity prices and ocean freight during the year. This allowed the Group to maintain its cost and price competitiveness.

The better performance was mainly contributed by the flour business in Malaysia and Vietnam. Our flour business recorded a 39% growth in profits to RM80.8 million for the year from RM58.0 million a year earlier. Due to the ability of the division to manage its input cost and raw material availability, it achieved reasonable margins in spite of the escalating global wheat prices.

We are grateful to the Malaysian government in recognising the difficulties encountered by the flour milling industry due to the significant increase in raw material cost and had agreed to an increase in the selling price of the price-controlled flour. In Vietnam, the flour millers were able to adjust the flour selling prices upwards accordingly.

Our feeds business registered an increase of 55% in its revenue to RM200.0 million from RM128.7 million achieved in the previous year. However, the profits decreased to a modest level of RM0.9 million as compared to RM7.3 million recorded in 2006. The decline in performance was attributed to the inability to increase selling prices commensurate with the escalation in corn and soyabean meal prices.

The poultry integration business recorded a loss of RM10.0 million for the financial year under review as opposed to a higher loss of RM15.8 million recorded a year earlier. Revenue for the business increased by 10% to RM198.1 million from RM180.5 million reported in the previous corresponding period. During the year under review a manpower rationalization exercise was undertaken and its distribution channels streamlined. The management remains focused on turning around this business and maintains a positive outlook for the segment. Its key strategy is to gain economies of scale and higher level of efficiencies.

Chairman's Statement (cont'd)

REVIEW OF PERFORMANCE (cont'd)

The two claims made in the legal case reported in 2006, where a subsidiary, Dindings Poultry Processing Sdn Bhd was served with a writ of summons filed in the high court by a third party and a non-governmental organization for damages amounting to RM101 million for an alleged breach of the Halal logo, had been struck out and set aside respectively by the Court with cost.

The implementation of the Enterprise Resource Planning software in MFM which commenced in 2006 for the Malaysian based operations, had contributed to an improvement in the level of internal control and efficiency in data and information management. The system would also be rolled out to our operations in Vietnam during 2008.

The Group remains committed to support all Safety, Health and Environmental protection programs to ensure and provide a safe and healthy working environment for all its employees. The Group places great emphasis on Hazards Analysis Critical Control Point (HACCP) system which is a preventive system assuring the safe production of food products. The objectives are to make a product safe for human consumption. It employs a methodical and systematic approach to plan, control and document the safe production of food. The existence of an effective HACCP system within any food manufacturing organisation projects a corporate image of sound quality and safety.

MFM continues to play its part in building community relations by contributing to deserving organizations and the underprivileged. The monetary contributions made by the Group in 2007 included that to the flood victims in Johor, Rotary Charity project in Sitiawan, Wawasan Education Fund and HSBC Community Charity Trianglethon. In recognition of the importance of corporate governance, MFM had also co-sponsored an international conference on Democratisation and Good Governance in the Malaysian Public Sector organized by University of Malaya.

CORPORATE DEVELOPMENT

For the year under review, an additional 2,426,000 new ordinary shares of RM1 each were issued at the option price between RM1.58 and RM2.04 per ordinary share. The Scheme expired on 27th May 2007.

With the above new ordinary shares the issued and paid up capital of MFM increased from RM105.2 million as at 31st December 2006 to RM107.6 million as at 31st December 2007.



Chairman's Statement (cont'd)



OUTLOOK

Rising commodity cost and surging ocean freight resulting in margin squeeze as well as intense competition will remain the main challenges for the Group. One of the key strategies for the Group is to achieve greater economies of scale in 2008. This would assist in alleviating the adverse impact of higher costs. The Board expects the financial performance for year 2008 to be favourable.

DIVIDENDS

In view of the fine performance of the Group in 2007, I am very pleased to announce that your Directors are recommending a final dividend of 5 sen per ordinary share, less tax at 26% (Year ended 31st December 2006: 5 sen per ordinary share, tax exempt) and a special dividend of 10 sen per ordinary share, less tax at 26%, in respect of the financial year ended 31st December 2007 for your approval at the forthcoming Annual General Meeting to be held on 9th June 2008.

With the above final and special dividend plus the interim dividend of 5 sen per ordinary share (Year ended 31st December 2006: 5 sen per ordinary share, less tax at 27%) paid on 18th January 2008, the total dividend payout of 20 sen per share would be the highest for the company since its listing on the Bursa Malaysia Securities Berhad.

CONDOLENCE

The Board and Management were saddened by the recent passing away of one of our directors, Dato' Richard Ho Ung Hun in February 2008. The Group is indeed grateful for the late Dato' Richard Ho's contribution during his tenure as a member of the Board of the Company. The Board of Directors and management of the Group would like to extend their deepest condolence to the wife and family members of the late Dato' Richard Ho on their recent bereavement.

APPRECIATION

On behalf of the Board of Directors, I would like to thank the shareholders, customers, suppliers, bankers, government agencies and regulatory authorities for the continued support and contribution.

The Board would also like to extend its deepest appreciation to the management and employees of the Group for their commitment and dedication in their endeavor to realize the Group's Vision, especially in this challenging economic environment.

Tan Sri Datuk Arshad bin Ayub
Chairman

Kuala Lumpur
16th May 2008