

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 2008.

REVIEW OF PERFORMANCE

It is a great pleasure for me to report that the Group has achieved another milestone in the year 2008 when it registered a profit before tax of RM80.7 million. This represents an increase of 26% as compared to the profit before tax of RM64.0 million in the previous year. The Group's revenue rose 16% to RM1.2 billion from RM1.0 billion in the prior year.

The year 2008 has on a number of occasions been described as a year of two halves by some analysts. During the first half of 2008 commodity prices escalated to record highs but subsequently plunged sharply with some commodities recording declines in excess of 50% during the second half. However, in spite of the high volatility in the global commodity market as well as the fuel, ocean freight and foreign exchange markets the Group had generally managed to maintain its gross margins and record a higher revenue. These were due mainly to the proper management of its raw material costs and the improvement in operational and distribution efficiencies. However, arising from the unforeseen sudden drop in commodity prices in the last quarter of 2008, the Group had to provide for a write down of its inventories amounting to RM12.2 million.



Chairman's Statement (cont'd)

REVIEW OF PERFORMANCE (cont'd)

Our Flour business recorded profits of RM98.7 million for the year. This represents a 22% improvement over the prior year on the back of a 18% year on year growth in revenue. During 2008 Vietnam experienced upheavals in its economy with high trade deficits, escalating inflation and high interest rates as well as weakness in its currency. The situation peaked around the middle of 2008 and has since stabilized. A GDP growth of 3.1% was reported for the first quarter of 2009 and it has been reported that a GDP growth of 4 % to 5% could be registered for 2009. The performance of our flour business in Vietnam was adversely impacted by exchange losses due to the sudden devaluation of the Vietnamese Dong in the second quarter of 2008. However the results of the flour business in Vietnam for the year 2008 were within expectation.

Despite the adverse market conditions, the profit of the Feeds business increased to RM3.3 million as compared to RM1.0 million reported in 2007. The better performance was due to improved margins from feeds sales and the higher contribution from raw material sales.

Due to a 19% reduction in revenue and a one-off provision for impairment of our broiler opened houses and equipment amounting to RM2.4 million, the poultry integration business reported an increased loss of RM14.1 million. Higher feed costs and softer selling prices in 2008 had an adverse impact on the poultry segment. Various turnaround action plans implemented during the

year such as the streamlining and improvement in the efficiency of distribution channels as well as effective margin management has created a positive impact for the business. We are also in the process of converting our broiler opened houses to closed houses in order to achieve better bird quality and at a lower cost.

In order to achieve economies of scale we plan to invest in upgrading our silo, warehouse and packaging facilities in 2009. This will position us well in the local market for the long term.

The Board and management would like to extend their deepest condolence to the family members of the deceased and injured workers caused by the unfortunate dust explosion incident at our jetty in Lumut in March 2008. Alternative arrangements from the logistic standpoint were immediately put in place during that period and the damaged jetty was rectified within a short period of time. The incident had no significant impact on our operations. The Group remains very committed in providing a safe and healthy working environment for all its employees.

As part of our Corporate Social Responsibility program we had made contributions to various deserving organizations and causes during the year such as to the victims of the Sichuan earthquake and also to the Lung Foundation of Malaysia.



Chairman's Statement (cont'd)

OUTLOOK

The regional and global economic situation remains uncertain and it is expected that there will be continued volatility in commodity prices, fuel, ocean freight and foreign exchange rates. There is also intense competition in our business environment. In view of the above it is envisaged that 2009 will be a very challenging year. The Group will continue to strengthen its market position and work towards achieving further economies of scale. The Board expects the performance of the Group for the current year to be satisfactory.

DIVIDENDS

In view of the favourable results for year ended 31 December 2008, the Board of Directors is pleased to recommend a final dividend of 5 sen per ordinary share, less tax at 25% (Year ended 31 December 2007: 5 sen per ordinary share, less tax at 26%) and a special dividend of 10 sen per ordinary share, less tax at 25% (Year ended 31 December 2007: 10 sen per ordinary share, less tax at 26%), for your approval at the forthcoming Annual General Meeting to be held on 18 June 2009.

Including the interim dividend of 5 sen per ordinary share, less tax at 25% (Year ended 31 December 2007: 5 sen per ordinary share, less tax at 26%) paid on 18 January 2008, the total dividend payout for the whole year would be 20 sen per share.

DIRECTORS

I would like to express my sincere appreciation to one of our directors, Tan Sri Hamzah bin Abu Samah, who has retired on 2 April 2009. On behalf of the Board, I would like to thank him for his 21 years of dedicated service whilst on the Board of MFM and would like to wish him all the very best in his retirement.

At the same time I would like to welcome Datuk Oh Chong Peng who was appointed to the Board of Directors on 20 August 2008. Datuk Oh is also a director in other established public listed companies and brings with him vast experiences which would be beneficial to MFM.

APPRECIATION

On behalf of the Board of Directors, I would like to express our appreciation to the management and employees of the Group for their continued support and commitment as we work towards achieving our vision of being a leading food manufacturing enterprise in the region and in fulfilling our mission of being the preferred provider and strategic partner in the food industry.

To our shareholders, customers, suppliers, bankers, government agencies and regulatory authorities, we wish to thank you for your unwavering support and confidence in the Group.

Tan Sri Datuk Arshad bin Ayub
Chairman

Kuala Lumpur
27 May 2009

