

MALAYAN FLOUR MILLS BERHAD (4260-M)
(Incorporated in Malaysia)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	(Unaudited)	(Audited)
	As at	As at
	31.12.2018	31.12.2017
	RM '000	RM '000
Assets		
Property, plant and equipment	984,718	769,062
Intangible assets	2,577	2,951
Investment properties	5,110	5,167
Investment in a joint venture	61,033	47,217
Investment in an associate	1,113	1,107
Deferred tax assets	6,710	10,086
Other investment	2,213	2,213
Total non-current assets	1,063,474	837,803
Trade and other receivables, including derivatives	410,976	373,132
Prepayments and other assets	5,546	6,607
Inventories	468,728	493,018
Biological assets	54,906	56,673
Current tax assets	4,100	2,797
Cash and cash equivalents	168,832	257,768
Total current assets	1,113,088	1,189,995
Total assets	2,176,562	2,027,798
Equity		
Share capital	377,501	377,501
Reserves	442,954	457,115
Total equity attributable to owners of the Company	820,455	834,616
Non-controlling interests	73,718	72,648
Total equity	894,173	907,264
Liabilities		
Deferred tax liabilities	9,788	12,261
Loans and borrowings	151,061	76,194
Total non-current liabilities	160,849	88,455
Trade and other payables, including derivatives	142,189	147,226
Loans and borrowings	975,359	883,121
Current tax liabilities	3,992	1,732
Total current liabilities	1,121,540	1,032,079
Total liabilities	1,282,389	1,120,534
Total equity and liabilities	2,176,562	2,027,798
Net assets per share attributable to owners of the Company (RM)	1.49	1.52

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

MALAYAN FLOUR MILLS BERHAD (4260-M)
(Incorporated in Malaysia)
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
For the financial year ended 31 December 2018

	Note	3 months ended		Financial Period Ended	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
		RM '000	RM '000	RM '000	RM '000
Revenue		669,536	591,209	2,423,774	2,402,283
Cost of goods sold		(594,963)	(533,893)	(2,176,583)	(2,130,783)
Gross profit		74,573	57,316	247,191	271,500
Operating expenses		(35,448)	(41,128)	(182,089)	(170,848)
Results from operating activities		39,125	16,188	65,102	100,652
Interest expense		(9,137)	(6,961)	(29,553)	(25,472)
Interest income		2,077	3,313	11,298	13,573
Net finance expenses		(7,060)	(3,648)	(18,255)	(11,899)
Share of (loss)/profit of equity accounted joint venture, net of tax		1,037	2,185	(6,908)	7,771
Share of loss of equity accounted associate, net of tax		(14)	(2)	(6)	(31)
Profit before tax		33,088	14,723	39,933	96,493
Tax expense	17	(11,644)	(9,270)	(12,467)	(24,530)
Profit for the period		21,444	5,453	27,466	71,963
Profit attributable to:					
Owners of the Company		16,597	3,995	17,776	68,568
Non-controlling interests		4,847	1,458	9,690	3,395
Profit for the period		21,444	5,453	27,466	71,963
Basic earnings per ordinary share (sen)	21	3.02	0.73	3.23	12.46
Diluted earnings per ordinary share (sen)	21	N/A	N/A	N/A	12.46

The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

MALAYAN FLOUR MILLS BERHAD (4260-M)

(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	3 months ended		Financial Period Ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM '000	RM '000	RM '000	RM '000
Profit for the period	21,444	5,453	27,466	71,963
Other comprehensive income/(expense), net of tax				
Foreign currency translation differences for foreign operations	3,295	(15,048)	(1,635)	(36,355)
Total comprehensive income/(expense) for the period	24,739	(9,595)	25,831	35,608
Total comprehensive income/(expense) attributable to:				
Owners of the Company	19,643	(8,664)	15,913	37,851
Minority interests	5,096	(931)	9,918	(2,243)
Total comprehensive income/(expense) for the period	24,739	(9,595)	25,831	35,608

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

MALAYAN FLOUR MILLS BERHAD (4260-M)

(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Attributable to Owners of the Company			Retained Earnings RM '000	Total RM '000	Non- controlling interests RM '000	Total Equity RM '000
	Share Capital RM '000	Non-Distributable Reserve attributable to Capital RM '000	Distributable Reserve attributable to Revenue RM '000				
Balance at 1.1.2017	275,120	143,169	(9,643)	424,459	833,105	84,292	917,397
Total comprehensive income for the year	-	-	(30,717)	68,568	37,851	(2,243)	35,608
Issuance of shares pursuant to the exercise of warrants	95	-	-	-	95	-	95
Transfer of reserves upon expiry of warrants	33,370	(33,370)	-	-	-	-	-
Dividends to owners of the Company	-	-	-	(35,767)	(35,767)	-	(35,767)
Dividends to non-controlling interests	-	-	-	-	-	(6,856)	(6,856)
Changes of ownership interest in subsidiaries	-	-	-	(668)	(668)	(2,545)	(3,213)
Transfer pursuant to Companies Act 2016 (note a)	68,916	(68,916)	-	-	-	-	-
Balance at 31.12.2017	377,501	40,883	(40,360)	456,592	834,616	72,648	907,264
Balance at 1.1.2018	377,501	40,883	(40,360)	456,592	834,616	72,648	907,264
Total comprehensive income for the year	-	-	(1,863)	17,776	15,913	9,918	25,831
Dividends to owners of the Company	-	-	-	(30,266)	(30,266)	-	(30,266)
Dividends to non-controlling interests	-	-	-	-	-	(5,256)	(5,256)
Changes of ownership interest in subsidiaries	-	-	-	192	192	(3,592)	(3,400)
Balance at 31.12.2018	377,501	40,883	(42,223)	444,294	820,455	73,718	894,173

Note a

Effective from 31 January 2017, the new Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, during the period, the Company transferred the credit standing in the share premium account of RM68.918 million to the share capital account pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purposes as set out in Section 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any members of the Company as a result of this transition.

The Condensed Consolidated Statement Of Changes In Equity should be read in conjunction with the audited financial statements for year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

MALAYAN FLOUR MILLS BERHAD (4260-M)
(Incorporated in Malaysia)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2018

	12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000
Cash Flows From Operating Activities		
Profit before tax	39,933	96,493
Adjustments for:		
Amortisation and depreciation	57,589	53,381
Dividend income	(4)	(4)
Gain on disposal of property, plant and equipment	(26)	(90)
Interest expense	29,553	25,472
Interest income	(11,298)	(13,573)
Property, plant and equipment written off	10	94
Share of loss/(profit) of equity accounted joint venture, net of tax	6,908	(7,771)
Share of loss of equity accounted associate, net of tax	6	31
Net unrealised (gain)/loss on foreign exchange	(404)	4,390
Operating profit before changes in working capital	<u>122,267</u>	<u>158,423</u>
Inventories	24,196	(52,124)
Biological assets	1,767	(6,729)
Trade and other receivables, prepayments and other financial assets	(36,828)	45,954
Trade and other payables and other financial liabilities	(3,092)	(232)
Cash generated from operations	<u>108,310</u>	<u>145,292</u>
Net income tax paid	(10,584)	(14,431)
Interest received	11,298	13,573
Interest paid	(29,553)	(25,472)
Net cash generated from operating activities	<u>79,471</u>	<u>118,962</u>
Cash Flows From Investing Activities		
Acquisition of non-controlling interests in subsidiaries	(3,400)	(3,213)
Acquisition of property, plant and equipment and intangible assets	(273,088)	(175,199)
Dividend income	4	4
Increase in investment in a joint venture	(22,759)	-
Proceeds from disposal of property, plant and equipment	84	192
Net cash used in investing activities	<u>(299,159)</u>	<u>(178,216)</u>
Cash Flows From Financing Activities		
Dividends paid to owners of the Company	(30,266)	(35,767)
Dividends paid to non-controlling interests	(5,256)	(6,856)
Net proceeds from loans and borrowings	165,739	14,600
Proceeds from issuance of shares pursuant to the exercise of warrants	-	95
Net cash from/(used in) financing activities	<u>130,217</u>	<u>(27,928)</u>
Net decrease in Cash and Cash Equivalents	(89,471)	(87,182)
Effect of exchange rate fluctuations on cash held	535	(26,240)
Cash and Cash Equivalents at Beginning of Year	257,768	371,190
Cash and Cash Equivalents at End of Financial Year	<u>168,832</u>	<u>257,768</u>

Cash and Cash Equivalents

Cash and cash equivalents included in the condensed consolidated statement of cash flows comprise:-

	12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000
Deposits placed with licensed banks	136,305	232,097
Cash and bank balances	32,527	25,671
	<u>168,832</u>	<u>257,768</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

1. Basis of preparation

This condensed consolidated interim financial statements (Condensed Report) has been prepared in accordance with MFRS134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This condensed report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

2. Significant accounting policies

The audited financial statements of the Group for the year ended 31 December 2017 were prepared in accordance with MFRS. The significant accounting policies adopted in preparing this Condensed Report are consistent with those of the audited financial statements for the year ended 31 December 2017, except for those standards, amendments and IC interpretation which are effective from the annual period beginning on or after 1 January 2018 which are applicable to the Group. The adoption of these standards, amendments and IC interpretations have no material impact on this Condensed Report.

3. Seasonal or Cyclical Factors

There were no material changes brought about by seasonal or cyclical factors that affect the performance of the Group for the financial period under review.

4. Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows because of their nature, size or incidence for the financial period-to-date.

5. Changes in Estimates

There were no changes in estimates that have had any material effect on the financial period-to-date results.

6. Debt and Equity Securities

There were no issuances, repurchases and repayment of debt and equity securities during the financial period ended 31 December 2018.

7. Dividend

The second interim single tier dividend of 3.5 sen per ordinary share in respect of the financial year ended 31 December 2017, amounting to RM19,259,994 was paid on 30 March 2018.

The interim single tier dividend of 2.0 sen per ordinary share in respect of the current financial year ending 31 December 2018, amounting to RM11,005,708 was paid on 20 September 2018.

The Board has declared a second interim single tier dividend of 1.0 sen per ordinary share for the current financial year ended 31 December 2018. The dividend will be paid on 29 March 2019 to holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 15 March 2019.

8. Events After the Reporting Period

Subsequent to the balance sheet date, a fire occurred in part of a subsidiary's warehouse which resulted in damage of finished goods and packing materials. There has been no damage to plant equipment and production recovered and resumed very soon after. The affected area are all fully insured and the damages are currently being assessed by the insurer and expected not to exceed RM9 million. The compensation process will follow suit.

Apart from the above, there were no material events subsequent to the end of the financial period that would affect the financial results for the current financial period under review.

9. Contingent Liabilities or Assets

The Company has provided a proportionate corporate guarantee of up to USD6.0 million for financing facilities granted by a financial institution to the joint venture company, PT Bungasari Flour Mills Indonesia. As at 31 December 2018, the outstanding loan proportionately amounted to USD3.5 million.

In the quarter ended 31 December 2018, the Company extended another proportionate corporate guarantee of up to USD6.6 million for financing facilities granted by a financial institution to PT Bungasari Flour Mills Indonesia.

During the years 2017 and 2018, the Indonesian tax authority having performed tax audit in relation to Value-added Tax ("VAT") has issued notification letters imposing a total sum of RM17.1 million (additional tax assessment of RM8.55 million and penalty of RM8.55 million) and RM16.8 million (additional tax assessment of RM8.4 million and penalty of RM8.4 million) respectively on PT Bungasari Flour Mills Indonesia on the basis of overclaimed VAT for the years 2015 and 2016. The Group's 30% share of the potential liabilities is RM5.1 million and RM5.0 million for years 2015 and 2016 respectively. In 2018, PT Bungasari Flour Mills Indonesia submitted objection letters against the VAT notification letters, accompanied by a sum of RM8.7 million payment to the tax authorities in order to begin negotiation. PT Bungasari Flour Mills Indonesia has obtained the advice of its tax consultant who is of the view that there are sufficient grounds to challenge this assessment. On that basis, the Board concurs with the view that no additional provision is required in the financial statements for the potential tax liabilities up to the reporting date and the payment of RM8.7 million will be recoverable.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

MALAYAN FLOUR MILLS BERHAD (4260-M)**Notes to the Financial Report for the Financial Year Ended 31 December 2018****10. Capital Commitments**

	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Property, plant and equipment		
Contracted but not provided for	233,427	400,215

11. Changes in Composition of the Group

On 30 January 2018, Dindings Poultry Development Centre Sdn. Bhd. ("DPDC") entered into a Business Transfer Agreement with MFM Feedmill Sdn. Bhd. ("MFMF") to acquire the entire business of MFMF ("Business") for a total consideration equal to the value of the Net Assets of the Business as at 31 March 2018 ("Consideration") to be wholly satisfied by the issuance and allotment of such number of new ordinary shares in DPDC to the Company at the issue price of RM1.00 per ordinary share.

Following this, on 20 April 2018, based on the value of the Net Assets of the Business as at 31 March 2018, the total consideration of the transfer of Business of MFMF to DPDC is RM29,923,310. As settlement of the Consideration, DPDC has allotted 29,923,310 ordinary shares to the Company, being the sole shareholder of MFMF, credited as fully paid-up based on the issue price of RM1.00 per ordinary share.

On 30 January 2018, DPDC also entered into a Business Transfer Agreement with Dindings Soya & Multifeeds Sdn. Berhad ("DSM") to acquire the poultry feeds business undertaken by DSM ("Business") for a total consideration equal to the value of the Net Assets of the Business as at 31 March 2018 ("Consideration") to be wholly satisfied by the issuance and allotment of such number of new ordinary shares in DPDC to the Company at the issue price of RM1.00 per ordinary share.

On 20 April 2018, based on the value of the Net Assets of the Business as at 31 March 2018, the total consideration of the transfer of Business of DSM to DPDC is RM36,534,250. As settlement of the Consideration, DPDC has allotted 36,534,250 ordinary shares to the Company, being a major shareholder of DSM, credited as fully paid-up based on the issue price of RM1.00 per ordinary share.

On 27 December 2018, the Company had acquired an additional 7.02% equity interest in its subsidiary, Dindings Soya & Multifeeds Sdn Berhad ("DSM") comprising 2,500,000 ordinary shares ("DSM Shares") for a cash consideration of RM3,400,000 or at RM1.36 per DSM Share. Following the transfer of shares, DSM becomes a wholly-owned subsidiary of the Company.

12. Segmental Information**Results for 12 months ended 31 December 2018**

	Flour and grains trading RM'000	Poultry integration RM'000	Others RM'000	Total RM'000
Total segment revenue	1,789,907	727,794	-	2,517,701
Eliminations- inter-segment	(59,034)	(34,893)	-	(93,927)
Revenue from external customers	1,730,873	692,901	-	2,423,774
Results from operating activities	65,899	(929)	132	65,102
Interest expense				(29,553)
Interest income				11,298
Share of loss of equity accounted joint venture, net of tax				(6,908)
Share of loss of equity accounted associate, net of tax				(6)
Profit before tax				39,933
Segments assets	1,179,029	934,881	506	2,114,416
Investment in a joint venture	61,033	-	-	61,033
Investment in an associate	-	-	1,113	1,113
Total segment assets	1,240,062	934,881	1,619	2,176,562

Results for 12 months ended 31 December 2017				
	Flour and grains trading RM'000	Poultry integration RM'000	Others RM'000	Total RM'000
Total segment revenue	1,676,071	801,685	-	2,477,756
Eliminations- inter-segment	(35,139)	(40,334)	-	(75,473)
Revenue from external customers	1,640,932	761,351	-	2,402,283
Results from operating activities	63,606	37,100	(54)	100,652
Interest expense				(25,472)
Interest income				13,573
Share of profit of equity accounted joint venture, net of tax				7,771
Share of loss of equity accounted associate, net of tax				(31)
Profit before tax				96,493
Segments assets	1,273,571	705,370	533	1,979,474
Investment in a joint venture	47,217	-	-	47,217
Investment in an associate	-	-	1,107	1,107
Total segment assets	1,320,788	705,370	1,640	2,027,798

13. Performance Review

Financial review for current quarter was as follows:

	3 months ended		Changes %	Financial Period Ended		Changes %
	31.12.2018 RM'000	31.12.2017 RM'000		31.12.2018 RM'000	31.12.2017 RM'000	
Revenue	669,536	591,209	13.2%	2,423,774	2,402,283	0.9%
Results from operating activities	39,125	16,188	141.7%	65,102	100,652	(35.3%)
Profit before tax	33,088	14,723	124.7%	39,933	96,493	(58.6%)
Profit after tax	21,444	5,453	293.3%	27,466	71,963	(61.8%)
Profit attributable to owners of the Company	16,597	3,995	315.4%	17,776	68,568	(74.1%)

For the quarter ended 31 December 2018 (Q4 2018), the Group recorded a revenue of RM669.5 million, an increase of 13.2% from RM591.2 million registered in the same quarter ended 31 December 2017 (Q4 2017). This was attributed to higher sales recorded in flour and grains trading segment by 14.4% and the poultry integration segment by 10.4%.

Both the flour and grains trading and poultry integration segments recorded higher operating profit, amounting to RM30.8 million and RM8.2 million respectively in Q4 2018 compared to the same quarter last year. With this, the Group achieved a profit before tax (PBT) of RM33.1 million in Q4 2018, surpassing the PBT of RM14.7 million in Q4 2017. This was attributable to:-

- (i) Flour and grains trading segment's operating profit increased by 136% from RM12.7 million in Q4 2017 to RM30.8 million in Q4 2018, driven by higher selling price to offset increased commodities cost to protect margin. Amidst the price increase demand for flour and grains remained healthy.
- (ii) Poultry integration segment's operating profit increased by 134% from RM3.5 million in Q4 2017 to RM8.2 million in Q4 2018, mainly as a result of key factors below:-
 - a) Broiler production volume is higher in Q4 2018 as compared to that of Q4 2017 as a result of higher day-old-chicks (DOC) production volume in Q4 2018. Consequently, higher sales volume of live bird and poultry processed products is recorded in Q4 2018. Impact from the higher sales volume is RM1.1 million; and
 - b) Live bird prices improved in Q4 2018 as compared to Q4 2017. Impact is RM0.6 million;
 - c) Upward adjustment of fair value on biological assets in Q4 2018 which amounted to RM5.9 million as compared to RM2.5 million in Q4 2017. Impact is RM3.4 million;
- (iii) The Q4 2018 PBT was partially offset by the following adverse factors :
 - a) In Q4 2018, the Group's share of profit of equity accounted joint venture in Indonesia amounted to RM1.0 million as compared to a share of profit of RM2.2 million in Q4 2017. The lower share of profit in Q4 2018 is attributable to the lower margins arising from higher costs and forex losses from the weakened Indonesian Rupiah against the US Dollar.
 - b) Higher net interest expense in Q4 2018 amidst rising interest rates environment. Impact is RM3.4 million.

MALAYAN FLOUR MILLS BERHAD (4260-M)

Notes to the Financial Report for the Financial Year Ended 31 December 2018

Revenue increased slightly by 0.9% to RM2,423.8 million for the financial year ended 31 December 2018 as compared to RM2,402.3 million posted in the preceding year. Revenue from flour and grains trading segment increased 5.5% in the financial year ended 2018 but was partially offset by a 9.0% decline in poultry integration segment's revenue. For the financial year ended 31 December 2018, PBT decreased by 58.6% to RM39.9 million as compared to RM96.5 million recorded in the preceding year. This was predominantly due to the following key factors:-

- (i) Poultry integration segment incurred an operating loss of RM0.9 million in the financial year ended 2018 as compared to an operating profit of RM37.1 million in 2017:
 - a) Lower live bird prices for the financial year ended 31 December 2018. Impact is RM18.4 million;
 - b) Lower production volume of broilers due to fewer contract farms during the year as a result of Inclusion Body Hepatitis (IBH), a disease which impacted the production of DOC and broiler performance for a large part of 2018. However, by Q3 2018, the DOC production volume has recovered;
 - c) Partially mitigated by lower production costs in 2018; and
 - d) Downward adjustment of fair value on biological assets by RM16.6 million;
- (ii) Share of loss suffered in equity accounted joint venture amounting to RM6.9 million in 2018 as compared to a share of profit of RM7.8 million in 2017 due to lower margins arising from competitive activities in the market coupled with the depreciation of the Indonesian Rupiah against the US Dollar.
- (iii) Flour and grains trading segment recorded a 3.6% increase in its operating profit, amounting to RM65.9 million in the financial year ended 2018 against RM63.6 million in the preceding year. The increase is attributable to:
 - a) Higher margin from grains trading business in the financial year 2018 as a result of better pricing and higher volume;
 - b) Partially offset by the higher wheat consumption cost in the first 9 months of the financial year 2018; and
 - c) Partially offset by the higher net loss on derivatives in 2018. The net realised and unrealised gain on future and option contract coupled with net realised and unrealised loss on foreign exchange totalled a net loss of RM5.2 million in 2018, declining further from the net realised and unrealised gain on future and option contract and net realised and unrealised loss on foreign exchange which totalled to a net loss of RM1.5 million in 2017, mainly a result of the weakening of the Vietnamese Dong against the US Dollar in 2018. Net impact is RM3.7 million.
- (iv) Higher net interest expense in 2018 amidst rising interest rates environment. Impact is RM6.4 million.

Flour and grains trading

The flour and grains trading segment recorded a revenue of RM482.0 million in Q4 2018 as compared to RM421.3 million in Q4 2017 mainly due to higher selling price and healthy demand for flour and grains in Q4 2018, attributable to improvement in quality consistency of our products. The operating profit of this segment increased by 136% from RM12.7 million in Q4 2017 to RM30.8 million in Q4 2018 attributable to higher margins driven by higher selling price and higher sales volume, mitigating the increase in raw materials cost.

The flour and grains trading segment registered a revenue of RM1,730.9 million for the financial year ended 31 December 2018, a 5.5% increase from the revenue of RM1,640.9 million posted in the preceding year as a result of better pricing and higher volume. The segment registered a 3.6% increase in its operating profit, amounting to RM65.9 million in the financial year ended 31 December 2018 as compared to RM63.6 million posted in the preceding year mainly attributable to higher margin from grains trading business which partially offset higher wheat costs and higher net realised and unrealised loss on foreign exchange and lower net realised and unrealised gain on future and option contract in 2018.

Poultry integration

The poultry integration segment recorded an increase of 10.4% in revenue to RM187.6 million in Q4 2018 as compared to RM169.9 million in Q4 2017, as a result of higher sales volume of live bird and poultry processed products attributable to recovery from the production performance issues coupled with improved live bird selling prices in Q4 2018.

In Q4 2018, the poultry integration segment posted an operating profit of RM8.2 million as compared to a profit of RM3.5 million in Q4 2017 mainly due to higher margins arising from improved live bird prices and higher sales volume in Q4 2018. In addition, the fair value gain on biological assets amounted to RM5.9 million in Q4 2018 as compared to a gain of RM2.6 million in Q4 2017.

The poultry integration segment recorded a decrease of 9.0% in revenue to RM692.9 million in the financial year ended 31 December 2018 as compared to RM761.4 million in the preceding year due to lower broiler production volume and selling price of live birds. The segment registered an operating loss of RM0.9 million in the financial year ended 31 December 2018 as compared to an operating profit of RM37.1 million posted in the preceding year. The loss was mainly due to lower margins arising from lower live birds price and lower broiler production volume due to IBH disease impact, lower net realised and unrealised gain on future and option contract in 2018 by RM3.4 million coupled with the downward adjustment of fair value on biological assets by RM16.6 million in 2018. The fair value adjustment is a result of lower contribution margin which was used as a basis of valuation of biological assets.

14. Material Changes in Quarterly Results compared to the Results of the Preceding Quarter

Financial review for current quarter compared with immediate preceding quarter were as follows:

	Current Quarter	Immediate Preceding Quarter	Changes
	31.12.2018	30.09.2018	
	RM'000	RM'000	%
Revenue	669,536	642,746	4.2%
Results from operating activities	39,125	4,419	785.4%
Profit/(Loss) before tax	33,088	(3,710)	991.9%
Profit/(Loss) after tax	21,444	(2,828)	858.3%
Profit/(Loss) attributable to owners of the Company	16,597	(5,186)	420.0%

For Q4 2018, the Group recorded a revenue of RM669.5 million which represented a 4.2% increase from RM642.7 million registered in the quarter ended 30 September 2018 (Q3 2018), arising from higher revenue across the board, largely driven by higher sales volume and higher selling prices in Q4 2018 for flour and live bird.

The Group recorded a profit before tax of RM33.1 million in Q4 2018 as compared to a loss before tax of RM3.7 million registered in Q3 2018. Both flour and grains trading and poultry integration segments recorded higher operating profit in Q4 2018 as compared to Q4 2017.

Flour and grains trading's operating profit increased 77% in Q4 2018, from RM17.5 million in Q4 2017 to RM30.8 million in Q4 2018 attributable to higher margins arising from higher flour selling prices and lower net realised and unrealised loss on foreign exchange mainly due to a stronger Vietnamese Dong against US Dollar in Q4 2018. Poultry integration segment turned around in Q4 2018 with an operating profit of RM8.2 million as compared to an operating loss of RM13.2 million in Q3 2018. Improved live bird selling price, higher sales volume resulting from higher DOC and broiler production, lower production costs coupled with the fair value gain on biological assets of RM5.9 million in Q4 2018 contributed to the operating profit in Q4 2018.

Our equity accounted joint venture registered a share of profit of RM1.0 million in Q4 2018 as compared to a share of loss of RM2.9 million in Q3 2018 due to higher margins as a result of pricing action and lower net realised and unrealised loss on foreign exchange as the Indonesian Rupiah gained strength against US Dollar in Q4 2018.

15. Prospects

Commodity prices and foreign exchange rates remain volatile in the midst of an uncertain global economic environment. Despite these challenges and the problems faced by the Group in the financial year ended 31 December 2018, the Board is expecting the Group's performance will improve significantly in 2019 due to the following measures undertaken by management:-

- (i) Efforts are already in place to institute price increases in flour and grains trading segment to protect our margin that has been eroded,
- (ii) We are cautiously optimistic that the flour and grains trading segment's performance will improve further due to higher sales growth, and
- (iii) Efforts are undertaken to improve feeds quality, DOC and broiler production volume, reduce production costs through better feed conversion ratio and lower mortality. Disease has been successfully contained.

16. Variance of Actual from Forecast Profit After Tax and Profit Guarantee

- (a) Profit forecast : Not applicable
- (b) Profit guarantee : Not applicable

MALAYAN FLOUR MILLS BERHAD (4260-M)**Notes to the Financial Report for the Financial Year Ended 31 December 2018****17. Income Tax Expense**

	3 months ended		12 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Current income tax				
Malaysian - current year	1,137	119	2,365	2,276
- prior year	(42)	(434)	309	278
Overseas - current year	3,986	1,734	8,668	8,463
- prior years	-	-	222	1,537
Deferred tax - Origination and reversal of temporary difference	6,563	5,785	2,202	9,910
- (Over)/Under provision in prior year	-	2,066	(1,299)	2,066
	<u>11,644</u>	<u>9,270</u>	<u>12,467</u>	<u>24,530</u>

The Group's effective tax rate for the income tax expense during the quarter was higher than the Malaysia statutory tax rate of 24% mainly due to recognition of deferred tax expense during the quarter, which was partially offset by tax incentives in Vietnam and utilisation of tax losses in Malaysia. Excluding the deferred tax expense, the Group's effective tax rate for the current income tax during the quarter was 15%.

18. Status of Corporate Proposals

The following proposals were announced on 19 July 2018:

- (i) Proposed Renounceable Rights Issue of up to RM165,085,617 in nominal value of 5-year Redeemable Convertible Unsecured Loan Stocks ("RCULS") at 100% of its nominal value of RM1.00 on the basis of 3 RCULS for every 10 existing ordinary shares of MFLOUR ("MFLOUR Shares" or "Shares") held on an entitlement date to be determined later ("Entitlement Date") together with up to 82,542,808 new MFLOUR Shares ("Bonus Shares I") on the basis of 1 Bonus Share I for every 2 RCULS subscribed and up to 82,542,808 Free Detachable Warrants ("Free Warrants I") on the basis of 1 Free Warrant I for every 2 RCULS subscribed ("Proposed Rights Issue of RCULS"); and
- (ii) Proposed Renounceable Rights Issue of new MFLOUR Shares ("Rights Shares") up to 110,057,078 Rights Shares based on the assumed entitlement basis of 1 Rights Share for every 5 existing MFLOUR Shares held on the Entitlement Date, together with up to 55,028,539 new MFLOUR Shares ("Bonus Shares II") on the assumed basis of 1 Bonus Share II for every 2 Rights Shares subscribed and up to 55,028,539 free detachable warrants ("Free Warrants II") on the assumed basis of 1 Free Warrant II for every 2 Rights Shares subscribed by the Entitled Shareholders and/or their renouncee(s) ("Assumed Entitlement Basis") to raise gross proceeds of up to RM110.06 million of which the entitlement basis will be determined later ("Proposed Rights Issue of Shares").

(Collectively referred to as the "Proposals" or "Rights Issue")

The above Proposals were approved by the shareholders at the Extraordinary General Meeting held on 26 October 2018.

On 26 November 2018, the Board fixed the conversion price of the RCULS at RM0.50 per RCULS, the RCULS coupon rate of 5% per annum on the nominal value of the RCULS, the entitlement basis for the Rights Issue of Shares, the issue price of Rights Shares at RM0.50 per Rights Share and the exercise price of the Free Warrants I and II at RM0.68 each.

The entitlement date of the Rights Issue was 27 December 2018.

The issuance of 5% RCULS, saw an oversubscription of 7.03% where the Group received valid acceptances and excess applications for 176.69 million units of RCULS over the total number of 165.08 million units available.

Meanwhile, the Rights Shares attracted applications for 222.03 million units over the total number of 220.11 million units available, giving an oversubscription rate of 0.87%.

The Rights Issue has been completed following the listing of and quotation for the following on the Main Market of Bursa Securities with effect from 28 January 2019:

- (i) 165,084,641 RCULS at 100% of its nominal value of RM1.00 under the Rights Issue of RCULS;
- (ii) 220,113,744 Rights Shares under the Rights Issue of Shares;
- (iii) 137,570,667 Bonus Shares under the Rights Issue; and
- (iv) 137,570,667 Free Warrants under the Rights Issue.

Besides the above proposals, there were no new proposals announced as at 21 February 2019, the latest practicable date which is not earlier than seven (7) days from the date of this report.

MALAYAN FLOUR MILLS BERHAD (4260-M)
Notes to the Financial Report for the Financial Year Ended 31 December 2018

19. Group's Borrowings and Debt Securities

The details of the Group's borrowings as at 31 December 2018 were as follows:

	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Unsecured Long Term Borrowings		
<u>Term loans</u>		
Denominated in Ringgit Malaysia	151,061	76,194
Unsecured Short Term Borrowings		
<u>Bankers' acceptances/revolving credits</u>		
Denominated in Ringgit Malaysia	402,661	316,268
Denominated in US Dollar (i)	503,157	529,657
Denominated in Vietnamese Dong (ii)	53,681	17,836
<u>Term loans</u>		
Denominated in Ringgit Malaysia	15,860	19,360
	<u>975,359</u>	<u>883,121</u>

Included in the Group's loans and borrowings are unsecured bankers' acceptances/unsecured revolving credits:

- (i) Denominated in USD of RM503,157,000 equivalent to USD121,653,000 translated at USD/MYR rate of 4.1360 (2017: RM529,657,000, equivalent to USD130,860,000 translated at USD/MYR rate of 4.0475); and
- (ii) Denominated in VND of RM53,681,000, equivalent to VND301,698 million translated at VND/MYR rate of 5,620 (2017: RM17,836,000, equivalent to VND100,182 million translated at VND/MYR rate of 5,617)

20. Changes in Material Litigation

There was no material litigation action since the last annual balance sheet date to the date of this report.

21. Earnings Per Share ("EPS")

(a) Basic Earnings Per Ordinary Share

Basic earnings per ordinary share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	3 months ended		12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Profit attributable to ordinary shareholders of the Company	16,597	3,995	17,776	68,568
Weighted average number of Ordinary Shares in issue for basic EPS computation ('000)	550,285	550,285	550,285	550,270
Dilutive potential ordinary shares - Assumed exercise of Warrants	-	-	-	-
Weighted average number of Ordinary Shares in issue for diluted EPS computation ('000)	N/A	N/A	N/A	550,270
Basic earnings per ordinary share (sen)	3.02	0.73	3.23	12.46
Diluted earnings per ordinary share (sen)	N/A	N/A	N/A	12.46

(b) Diluted Earnings Per Ordinary Share

The diluted earnings per ordinary share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period after adjustment for the effects of all dilutive potential ordinary shares comprising Warrants.

The Company does not have any diluted earnings per share as at 31 December 2018.

The Company does not have any diluted earnings per share as at 31 December 2017, upon the expiry of the Warrants on 9 May 2017.

MALAYAN FLOUR MILLS BERHAD (4260-M)
Notes to the Financial Report for the Financial Year Ended 31 December 2018
22. Profit for the period

	3 months ended		12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Profit for the period is arrived at after charging:				
Amortisation and depreciation	14,928	13,665	57,589	53,381
Interest expense from unsecured bankers' acceptances/ revolving credits/term loans	9,137	6,961	29,553	25,472
Net realised loss on future and option contracts	-	-	-	7,515
Net unrealised loss on future and option contracts	1,500	1,071	-	-
Net unrealised loss on foreign exchange	-	354	-	4,390
Net realised loss on foreign exchange	3,574	583	9,082	2,232
Net fair value loss on biological assets	-	-	8,410	-
Property, plant and equipment written off	3	32	10	94
Loss on disposal of property, plant and equipment	-	2	-	-
Impairment loss of trade receivables	1,451	389	5,130	667
and after crediting:				
Interest income from:				
- deposits placed with licensed banks	2,019	3,305	11,137	13,565
- trade debtors	58	8	161	8
Bad debts recovered	-	-	26	-
Insurance recoveries	35	217	1,277	1,744
Gain on disposal of property, plant and equipment	35	-	26	90
Net unrealised gain on future and option contracts	-	-	522	16,158
Net realised gain on future and option contracts	1,080	1,672	2,689	-
Net unrealised gain on foreign exchange	2,391	-	404	-
Net fair value gain on biological assets	5,942	2,568	-	8,192
Reversal of impairment loss of trade receivables	809	48	1,992	495
Dividends on unquoted shares	-	-	4	4

23. Derivatives
(a) Contract and fair value of derivatives

	As at 31.12.2018		As at 31.12.2017	
	Contract value RM'000	Fair value RM'000	Contract value RM'000	Fair value RM'000
Derivative financial asset				
<u>Less than 1 year</u>				
- Foreign currency forward contracts	436,441	432,819	-	-
- Future and option contracts	1,866	1,463	-	-
Derivative financial liability				
<u>Less than 1 year</u>				
- Foreign currency forward contracts	-	-	367,224	361,484
- Future and option contracts	-	-	11,973	11,854

(b) Foreign currency risk
Currency risk sensitivity analysis

A 5 percent (2017: 5 percent) strengthening/(weakening) of RM against USD for the foreign currency forward contracts outstanding at the balance sheet date would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below:

	12 months ended 31.12.2018		12 months ended 31.12.2017	
	Equity RM'000	Profit or loss RM'000	Equity RM'000	Profit or loss RM'000
Group	(2,535)	2,535	(6,492)	6,492

(c) Liquidity risk

The contract values of the derivatives disclosed in Note 23(a) represent the contractual cash outflows of the derivatives.

(d) The significant accounting policies adopted for financial assets and financial liabilities measured at fair value through profit or loss are consistent with those of the audited financial statements for the year ended 31 December 2017.

MALAYAN FLOUR MILLS BERHAD (4260-M)**Notes to the Financial Report for the Financial Year Ended 31 December 2018****24. Net gains and losses arising from financial instruments**

	3 months ended		12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Net (losses)/gains on:				
Fair value through profit or loss:				
- foreign currency forward contracts	(4,785)	(2,572)	1,920	(21,316)
- future and option contracts	(421)	601	3,210	8,643
Loan and receivables	1,436	2,972	8,161	13,401
Financial assets/(liabilities) measured at amortised cost	(5,535)	(5,326)	(40,151)	(10,778)
	<u>(9,305)</u>	<u>(4,325)</u>	<u>(26,860)</u>	<u>(10,050)</u>

For the 12 months ending 31 December 2018, the net losses are mainly due to interest expenses on borrowings, net realised loss on foreign exchange and impairment loss of trade receivables but partially offset by interest income, net realised and unrealised gain on future and option contracts and reversal of impairment loss of trade receivables.

Fair value changes are dependent on the market prices of derivatives as at liquidation date and end of reporting period.

By Order of the Board

MAH WAI MUN
Secretary
MAICSA 7009729

Kuala Lumpur
27 February 2019