



Malayan Flour Mills Berhad
(4260-M)

Learning &
GROWTH



Annual Report **2016**

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Corporate Information

Chairman

Tan Sri Dato' Seri Utama Arshad bin Ayub
P.S.M., S.P.M.S., S.U.N.S., S.P.M.P., S.P.S.K., P.N.B.S.,
D.P.M.P., D.P.M.J., D.S.A.P., D.P.M.T., D.S.L.J. (Brunei),
P.G.D.K., J.M.N., P.B.E.

Managing Director

Teh Wee Chye

Directors

Dato' Hj Shaharuddin bin Hj Haron
D.P.C.M., J.S.M., P.C.M., K.M.N.

Datuk Oh Chong Peng
P.J.N., J.S.M.

Dato' Wira Zainal Abidin bin Mahamad Zain
D.G.M.K., D.S.D.K., K.M.N., S.M.T., A.M.K.

Prakash A/L K.V.P Menon

Azhari Arshad

Audit Committee

Dato' Hj Shaharuddin bin Hj Haron
(Chairman and Independent Non-Executive Director)

Tan Sri Dato' Seri Utama Arshad bin Ayub
(Non-Independent Non-Executive Director)

Datuk Oh Chong Peng
(Independent Non-Executive Director)

Dato' Wira Zainal Abidin bin Mahamad Zain
(Independent Non-Executive Director)

Secretary

Mah Wai Mun (MAICSA 7009729)

Registered Office & Head Office

22nd Floor, Wisma MCA
163 Jalan Ampang, 50450 Kuala Lumpur
Tel. No: 03-2170 0999
Fax No: 03-2170 0888
Website: www.mfm.com.my

Registrar

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan
Tel. No: 03-7841 0777 (Helpdesk)
Fax No: 03-7841 8151/52

Factories

Jalan David Sung, Batu Undan
32200 Lumut
Perak Darul Ridzuan

Lot 133, Jalan Pukal
Pasir Gudang Industrial Estate
81700 Pasir Gudang
Johor Darul Takzim

Branches

- **FEDERAL TERRITORY**
Lot 40, Jalan E 1/4
Taman Ehsan Industrial Park
Kepong, 52100 Kuala Lumpur
- **PENANG**
4557, Jalan Heng Choon Thian
12000 Butterworth, Pulau Pinang
- **PERAK**
No. 2, Laluan Perusahaan 10
Kawasan Perusahaan Menglembu
31450 Ipoh, Perak Darul Ridzuan
- **MALACCA**
No. 1, Jalan PM3
Taman Perindustrian Merdeka
75350 Batu Berendam, Melaka
- **JOHOR**
Lot 133, Jalan Pukal
Pasir Gudang Industrial Estate
81700 Pasir Gudang, Johor Darul Takzim

- **KELANTAN**

Lot 4045, Blok C, No. 4 Jalan 1/44
Pengkalan Chepa, Mukim Panchor
Daerah Kemumin
16100 Kota Bharu
Kelantan Darul Naim

- **PAHANG**

B-5 Lorong Padang Lalang
14, Jalan Tanjung Api
25050 Kuantan
Pahang Darul Makmur

Subsidiaries

- Vimaflour Ltd
- MFM International Ltd
- Mekong Flour Mills Ltd
- Dindings Soya & Multifeeds Sdn Berhad (34884-U)
- MFM Feedmill Sdn Bhd (172615-X)
- Dindings Poultry Processing Sdn Bhd (144808-P)
- Dindings Poultry Development Centre Sdn Bhd (180044-A)
- Premier Grain Sdn Bhd (754079-T)
- Semakin Dinamik Sdn Bhd (185533-V)
- Dindings Broiler Breeder Farm Sdn Bhd (172600-T)
- Syarikat Pengangkutan Lumut Sdn Bhd (51336-M)
- Muda Fibre Manufacturing Sdn Bhd (48785-V)
- Dindings Grand Parent Farm Sdn Bhd (144962-W)
- MFM Property Sdn Bhd (176691-P)
- MFM Ltd
- AVIOTA Sdn Bhd (1213813-D)

Principal Bankers

- Alliance Bank Malaysia Berhad (88103-W)
- Bangkok Bank Berhad (299740-W)
- Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad (302316-U)
- Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A (Rabobank Nederland) (050090C)
- Hong Leong Bank Berhad (97141-X)
- HSBC Bank Malaysia Berhad (127776-V)
- Malayan Banking Berhad (3813-K)
- OCBC Bank (Malaysia) Berhad (29548-W)

Stock Exchange Listing

Bursa Malaysia Securities Berhad
- Main Market (Consumer Products Sector)
Stock Code: 3662

Solicitors

Isharidah, Ho, Chong & Menon
Skrine

Auditors

KPMG PLT

Board of Directors



Tan Sri Dato' Seri Utama
Arshad bin Ayub



Mr Teh Wee Chye



Dato' Hj Shaharuddin
bin Hj Haron



Datuk Oh Chong Peng



Dato' Wira Zainal Abidin
bin Mahamad Zain



Mr Prakash
A/L K.V.P Menon



Encik Azhari Arshad

Directors' Profile

Tan Sri Dato' Seri Utama Arshad bin Ayub

(Non-Independent Non-Executive Chairman)

Tan Sri Dato' Seri Utama Arshad bin Ayub (Male), aged 88, a Malaysian, was appointed to the Board of the Company on 30 August 2002 and is presently the Chairman of the Company. He is also the Chairman of the Remuneration Committee as well as member of the Audit and Nomination Committees of the Company. He graduated with a Diploma in Agriculture in 1954 from College of Agriculture, Serdang and pursued his Bachelor of Science Degree in Economics with Statistics at the University College of Wales, Aberystwyth in the United Kingdom in 1958 and also Diploma in Business Administration (IMEDE), Lausanne, Switzerland in 1964. He has a distinguished career in the Malaysian Civil Service. Among the top posts he held were First Director, Mara Institute of Technology (1965-1975), Deputy Governor of Bank Negara Malaysia (1975-1977), Deputy Director-General in the Economic Planning Unit of the Prime Minister's Department (1977-1978) and Secretary-General in the Ministry of Primary Industries (1978), Ministry of Agriculture (1979-1981) and Ministry of Land and Regional Development (1981-1983). His current directorships in public companies and listed issuers include Tomypak Holdings Berhad, Top Glove Corporation Berhad, Bistari Johor Berhad and Karex Berhad. Encik Azhari Arshad who is an Executive Director of the Company is his son. He has no family relationship with the other Directors and/or major shareholder of the Company.

He has attended all the 6 Board meetings held during the financial year. He has no conflict of interest with the Company.

Mr Teh Wee Chye

(Managing Director)

Mr Teh Wee Chye (Male), aged 64, a Malaysian, was appointed to the Board as an Executive Director of the Company on 19 June 1989 and is presently the Managing Director of the Company. He is also a member of the Remuneration Committee of the Company. He holds a Bachelor of Science Degree in Naval Architect and Marine Engineering and a Masters Degree in Ship Building and Shipping Management from the Massachusetts Institute of Technology, USA. In the summer of 1974, he received his training at the American Bureau of Shipping Research & Development Department, New York. Upon graduation in 1975 he was employed as an Engineer with Eastern Steamship (S) Pte Ltd, Singapore. He joined Malayan Flour Mills Berhad in 1976 as the Deputy Mill Manager and was promoted as the Plant Manager in 1978. He was appointed as the Project Manager in 1979 in charge of the Company's entire expansion plans. He is also a director of United Teochew (Malaysia) Berhad and Seu Teck Sean Tong Charitable Organisation Berhad. He is a major shareholder of the Company.

He has attended all the 6 Board meetings held during the financial year. He is deemed interested in various related party transactions with the Group.

Directors' Profile (cont'd)

Dato' Hj Shaharuddin bin Hj Haron

(Independent Non-Executive Director)

Dato' Hj Shaharuddin bin Hj Haron (Male), aged 78, a Malaysian, was appointed to the Board of the Company on 23 September 1993 and is presently the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees of the Company. He holds a Bachelor (Hons) Degree in Economics from the University of Malaya and a Masters Degree in Economics from the University of Pittsburgh, USA. He has a long and outstanding civil service record which began in 1963 when he joined the Economic Planning Unit of the Prime Minister's Department till 1979. He held various senior positions in the Government. He was the first Secretary of the Foreign Investment Committee (1974-1979), the Director General of Insurance in the Ministry of Finance (1983), the Director General of the National Padi and Rice Board (1985) and Secretary General of the Ministry of Public Enterprise (1986), Ministry of International Trade and Industry (1990) and Ministry of Domestic Trade and Consumer Affairs (1992). Presently, he sits on the Board of Gopeng Berhad and Latitude Tree Holdings Berhad. He has no family relationship with any Director and/or major shareholder of the Company.

He has attended 5 out of the 6 Board meetings held during the financial year. He has no conflict of interest with the Company.

Datuk Oh Chong Peng

(Independent Non-Executive Director)

Datuk Oh Chong Peng (Male), aged 72, a Malaysian, was appointed to the Board of the Company on 20 August 2008 and is presently a member of the Audit, Nomination and Remuneration Committees of the Company. He is a Fellow of the Institute of Chartered Accountants in England and Wales ("ICAEW") as well as a member of the Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA").

He joined Coopers & Lybrand (now known as PricewaterhouseCoopers) in London in 1969 and in Malaysia in 1971. He was a Partner of Coopers & Lybrand Malaysia from 1974. He retired as a Senior Partner of Coopers & Lybrand in 1997 and then joined the Rashid Hussain Berhad Group of Companies in 1998 until 2003.

He is currently the Independent Non-Executive Chairman of Alliance Financial Group Berhad and also sits on the boards of British American Tobacco (Malaysia) Berhad, WCE Holdings Berhad, Dialog Group Berhad and Saujana Resort (M) Berhad.

Datuk Oh is a Government appointed member of the Labuan Offshore Financial Services Authority. He is a trustee of the UTAR Education Foundation and a council member of University Tunku Abdul Rahman.

His past appointments included being a Government appointed Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2001) and a past President (1994-1996) of the MICPA.

He has attended all the 6 Board meetings held during the financial year. He has no family relationship with any Director and/or major shareholder of the Company. He has no conflict of interest with the Company.

Dato' Wira Zainal Abidin bin Mahamad Zain

(Independent Non-Executive Director)

Dato' Wira Zainal Abidin bin Mahamad Zain (Male), aged 67, a Malaysian, was appointed to the Board of the Company on 1 September 2009 and is presently the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. He holds a Bachelor of Arts (Hons-International Relations) Degree from University of Malaya.

He has a distinguished career in the Malaysian Civil Service. His past appointments include being appointed to the Administrative and Diplomatic Service of Malaysia as Assistant Secretary at the Ministry of Foreign Affairs (1973), Second Secretary of the Embassy of Malaysia in Jakarta, Indonesia (1974), Assistant Secretary of Ministry of Foreign Affairs (1977), Charge d'Affaires of the Embassy of Malaysia in Tehran, Iran (1979-1982), Principal Assistant Secretary of Ministry of Foreign Affairs (1982), Charge d'Affaires of Embassy of Malaysia in Abu Dhabi, United Arab Emirates (1984), Consul General of the Consulate General Malaysia in Jeddah (1986), Under Secretary (West Asia, Africa & OIC) of Ministry of Foreign Affairs (1989), Consul General of the Consulate General Malaysia in Vancouver, Canada (1991), Ambassador of Malaysia to Brazil (1995), Ambassador of Malaysia to Vietnam (1998), Under Secretary (South East Asia & Pacific) of Ministry of Foreign Affairs (2001), Malaysia's First Director General [Southeast Asia Regional Centre for Counter Terrorism (SEARCCT)], Ministry of Foreign Affairs (2003-2005), Ambassador of Malaysia to the Republic of Indonesia (2005-2009), Malaysia's First ASEAN Permanent Representative ad-interim Republic of Indonesia (March 2009-July 2009) and Special Envoy of the Prime Minister of Malaysia to The Islamic Republic of Afghanistan (2010-2014).

He is currently the Independent Non-Executive Chairman of CIMB Vietnam and Independent Non-Executive Director of CIMB Cambodia.

He has attended all the 6 Board meetings held during the financial year. He has no family relationship with any Director and/or major shareholder of the Company. He has no conflict of interest with the Company.

Mr Prakash A/L K.V.P Menon

(Non-Independent Non-Executive Director)

Mr Prakash A/L K.V.P Menon (Male), aged 58, a Malaysian, was appointed to the Board of the Company on 24 May 2011 and is presently a member of the Nomination and Remuneration Committees of the Company. He is a barrister-at-law (Lincoln's Inn, London) having graduated with LLB (Hons) from University of Manchester.

He was admitted to the English Bar in 1983 and being bestowed the qualification as a Barrister. Upon completion of the term of pupillage, he was called to the Malaysian Bar and was admitted as an Advocate and Solicitor of the High Court of Malaya on 18 June 1984.

Since his admission to the Malaysian Bar, he has been in private practice and is a Senior Partner in the firm of Isharidah, Ho, Chong & Menon and is actively involved in the area of litigation. He has been in active practice for more than 30 years.

He is not a director of any other public company and listed issuer. He has no family relationship with any Director and/or major shareholder of the Company. He has attended all the 6 Board meetings held during the financial year. He has no conflict of interest with the Company.

Directors' Profile (cont'd)

Encik Azhari Arshad

(Director, Business Development & Corporate Affairs)

Encik Azhari Arshad (Male), aged 55, a Malaysian, was appointed to the Board as a Non-Executive Director on 16 August 2012 and was subsequently appointed as a Business Development & Corporate Affairs Director on 5 May 2015. He holds a Bachelor of Science Degree in Economics from University of Buckingham (UK).

He has more than 20 years' experience in business development and marketing. In 1988, he joined Shell Malaysia Trading as a Senior Marketing Executive. Thereafter, he joined Pennzoil Malaysia as a Marketing Country Manager in 1993. In 1996, he was with Conoco Philips Malaysia as a Marketing Director in Malaysia. From 2002 until 2006, he was the Business Development and Marketing Strategy Consultant for Petronas downstream sector companies i.e. Petronas Dagangan Berhad and Petronas Holdings respectively. Subsequently, he was the Business Strategy, Marketing & Project Development Consultant for South-East Asia in US Management & Marketing Consultancy.

He is not a director of any other public company and listed issuer. He is the son of the Chairman of the Company, Tan Sri Dato' Seri Utama Arshad bin Ayub. He has attended all the 6 Board Meetings held during the financial year. He has no conflict of interest with the Company.

Key Senior Management Profile

Mr Teh Wee Chye

(Managing Director)

Aged 64, Male, Malaysian

Mr Teh Wee Chye was appointed to the Board as an Executive Director of the Company on 19 June 1989 and is presently the Managing Director of the Company. His profile is listed in the Directors' Profile on page 5 of this Annual Report.

Mr Lim Pang Boon

(Head of Flour Division)

Aged 61, Male, Malaysian

Mr Lim Pang Boon joined the Company on 1 January 1990 and was appointed as the General Director, Flour Division in Vietnam on 1 September 2002.

He holds a Bachelor of Science Degree in Electrical Engineering and has vast experience in engineering consultancy, factory operation management, flourmill project management and general management.

Mr Tony Wo Kah Keat

(General Manager, Poultry Processing)

Aged 47, Male, Malaysian

Mr Tony Wo Kah Keat joined the Group on 20 September 2004 and was promoted to the current position on 1 May 2010.

He is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a Member of the Malaysian Institute of Accountants (MIA).

Prior to joining the Group, he has more than 12 years of experience in finance and other management disciplines, including a number of years in professional accounting firms.

Encik Azhari Arshad

(Director, Business Development & Corporate Affairs)

Aged 55, Male, Malaysian

Encik Azhari Arshad was appointed as the Business Development & Corporate Affairs Director on 5 May 2015. His profile is listed in the Directors' Profile on page 8 of this Annual Report.

Mr Ang Pun Heng

(Head of Poultry Integration Division)

Aged 58, Male, Malaysian

Mr Ang Pun Heng joined the Group in January 2009 as a General Manager and subsequently was promoted as the Executive Director in-charge of the poultry integration.

He has more than 35 years of experience in poultry industry.

Dr Chay Seong Hoe

(General Manager, Breeder and Hatchery)

Aged 45, Male, Malaysian

Dr Chay Seong Hoe joined the Group on 1 May 2009 as Farm Operations Manager and was promoted to the current position on 1 January 2012.

He holds a Doctor of Veterinary Medicine Degree from University Putra Malaysia. He has 20 years of experience in poultry farming.

Key Senior Management Profile (cont'd)

Mr Goh Swee Eng

(Chief Financial Officer)

Aged 45, Male, Malaysian

Mr Goh Swee Eng joined the Company on 22 July 2015 as the Chief Financial Officer of the Company.

He holds a Bachelor of Accountancy and a Member of the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants (MICPA).

He has more than 20 years of extensive experience in auditing and finance functions. He began his career in an international accounting firm and in later years joined the manufacturing and property development industries where he has held regional and senior managerial positions in finance, internal audit, corporate services and supply chain management functions.

Mr Ronnie Beh Jin Hae

(General Manager, Group Internal Audit and Risk Management)

Aged 48, Male, Malaysian

Mr Ronnie Beh Jin Hae joined the Company on 1 September 2014 as the General Manager, Group Internal Audit and Risk Management.

He holds a Master of Business Administration from University of Warwick, UK and a Bachelor of Arts (Hons) Degree in Accountancy & Finance from University of Abertay Dundee, UK. He is a Chartered Member of the Institute of Internal Auditors Malaysia.

He has more than 20 years of experience in internal audit and risk management.

Mr Chua Kiat Hwa

(Senior General Manager, Purchasing)

Aged 54, Male, Malaysian

Mr Chua Kiat Hwa joined the Company on 16 March 1992 and was promoted to the current position on 1 January 2016.

He holds a Master of Business Administration from Hawaii Pacific University, Honolulu Hawaii and a Bachelor Degree in Arts from Universiti Kebangsaan Malaysia.

He has more than 20 years of commodity trading experience with large international commodity broker or grains institutions.

Mdm Carol Chan Chui Yoke

(General Manager, Group Human Resources)

Aged 45, Female, Malaysian

Mdm Carol Chan Chui Yoke joined the Company on 2 June 2014 as the General Manager, Group Human Resources.

She holds a Master of Business Administration from University of Missouri, Kansas City, USA.

She has more than 19 years of experience in full spectrum of Human Capital functions with more than 10 years' experience in senior position in driving human resources strategies that support the Company's overall business plans and strategies.

Ir Beh Men Huat

(General Manager, Group Engineering Services & Projects)

Aged 60, Male, Malaysian

Ir Beh Men Huat joined the Company on 5 December 2008 as the Senior Manager, Group Engineering Services & Projects and subsequently promoted to General Manager in 2012.

He holds a Bachelor of Science Degree in Civil Engineering (First Class Honour) from University of Strathclyde, UK and a Degree of Master of Finance from RMIT University, Australia. He is also a Professional Engineer registered with the Board of Engineer.

He has more than 35 years working experience in both the public and private sectors primarily in the field of water privatisation concession, planning, design, construction supervision, contract administration and project management in building, civil, infrastructure works in Malaysia and overseas.

Dr Tan Leong Chee

(General Manager, Group Engineering Services & Projects)

Aged 53, Male, Malaysian

Dr Tan Leong Chee joined the Company on 10 November 2014 as the General Manager, Group Engineering Services & Projects.

He holds a Doctor of Philosophy from Nanyang Technological University, Singapore, a Master of Engineering from National University of Singapore and a Bachelor of Civil Engineering from University of Malaya.

He has more than 29 years of experience in managing projects for the construction of jetty, industrial building, power plants, airport, high-rise building, residential and infrastructure works for highways. He also involved in the conceptual stage, pre-contract administration, post-contract administration and closure of the projects.

Additional Information:

1. Save for Mr Teh Wee Chye and Encik Azhari Arshad, none of the other Key Senior Management members have any directorship in public companies and listed issuers.
2. Save for Mr Teh Wee Chye and Encik Azhari Arshad, none of the other Key Senior Management members have any family relationship with any Director and/or major shareholder of the Company.
3. Save for Mr Teh Wee Chye, none of the other Key Senior Management members have any conflict of interest with the Company.

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 2016.*

The revenue of flour and grains trading segment constituted 68% of our Group's turnover. The revenue for this segment increased by 11% to RM1.7 billion as compared to the previous year due to higher sales volume of flour and grains. Despite stiff competition and higher net fair value loss from future and options contracts in 2016, this segment posted an operating profit of RM53.7 million, representing a 20% improvement from a year earlier and constituted 47% of our Group's operating profit.

Our joint venture in Indonesia, PT Bungasari Flour Mills Indonesia ("BFMI"), had achieved 38% increase in revenue to RM540 million in 2016 as compared to RM392 million in the previous financial year due to higher sales volume. Our Group's share of profit of equity accounted joint venture in 2016 was at RM6.4 million as compared to the previous year's share of loss of RM21.8 million recorded due to better margins and BFMI's sustained efforts in the sales and marketing as well as the efficiency in plant operations in 2016.

Further to the previous capital injections of USD12.63 million in 2012 and 2013, an additional capital contribution of USD9.48 million was made in 2016 in order to strengthen BFMI's balance sheet.

The poultry integration business performed well for the financial year ended 31 December 2016 as the business grew further economies of scale and with better farm management system. The revenue for this segment increased by 10% to RM803 million as compared to the previous year and its operating profit of RM61.5 million, representing a 107% improvement from a year earlier and constituted 53% of our Group's operating profit. This was a result of higher sales volume and favourable market prices for live birds and poultry processed products in 2016.

Our Group is working on further expansion in the poultry integration segment in order to enhance its future earnings growth.

Review of Performance

MFM had achieved a stellar performance for the financial year ended 31 December 2016, amidst challenging domestic and global business conditions.

Our Group's revenue for the financial year grew by 10% from RM2.3 billion in 2015 to RM2.54 billion in 2016. This was attributed to higher sales volume in our businesses and improved selling prices in the poultry integration segment. Our Group's profit before tax of RM111.3 million, representing a 154% improvement from a year earlier, attributed to higher profit margins especially in the poultry integration segment coupled with share of profit of equity accounted joint venture in 2016.

Corporate Development

In October 2015, MFM entered into a Sale of Shares Agreement with the Perak State Agricultural Development Corporation to acquire approximately 17.55% and 2.96% of equity interests in Dindings Soya & Multifeeds Sdn. Berhad (“DSM”) and Dindings Poultry Processing Sdn. Bhd. (“DPP”), respectively, for a total consideration of RM8.3 million through the issuance and allotment of new ordinary shares. The equity interests in DSM and DPP were subsequently transferred to MFM on 16 February 2016. Following the transfer of shares, the effective ownership interests in DSM and DPP were increased to 88% and 98% respectively.

On 2 August 2016, MFM had acquired an additional 1.19% equity interest in DPP comprising 640,000 ordinary shares of RM1.00 each from a third party for a cash consideration of RM710,000. As a result, MFM has increased its effective shareholding in DPP from 98% to 99%.

Human Capital

Our Group’s talent development and succession planning programmes are directed towards developing competencies and ensuring sustainability in our Group’s businesses in alignment with our long-term vision to becoming a leading food manufacturing enterprise in the region. We recruited our first batch of fresh engineering graduates to undergo our flour and feed milling development programmes and also fresh food technology graduates to undergo our flour product consultant development programme in 2016. We have also facilitated the collaboration between Kansas State University (“KSU”) and University of Malaya (“UM”) to develop a grain science programme to fulfill the Government’s objective of food security in Malaysia.

Outlook

We believe MFM is well positioned for future growth. Despite the uncertain global economic environment, volatile commodity prices and foreign exchange rates, we expect our Group’s performance in 2017 to remain positive.

On 3 March 2017, the Menteri Besar of Perak, Y.A.B. Dato’ Seri DiRaja Dr. Zambry bin Abdul Kadir had officiated the groundbreaking ceremony of our new state-of-the-art poultry processing plant in Sitiawan, Perak for an expected three-fold increase in our current capacities.

Dividend

The Board of Directors had declared an interim single tier dividend of 3.00 sen per ordinary share for financial year ended 31 December 2016 which was paid on 15 September 2016.

The Board of Directors had further declared a second interim single tier dividend of 3.50 sen per ordinary share for financial year ended 31 December 2016 which will be paid on 24 March 2017.

Directors

We are saddened by the demise of our independent director, Mr Geh Cheng Hooi, who passed away peacefully on 29 May 2016. His integrity, honesty, humility and wisdom will be deeply missed.

I would also like to express the Board’s appreciation to our independent director, Tan Sri Mohd Sidek bin Haji Hassan, for his valuable contributions. He resigned from the Board on 15 February 2017 due to his other commitments. His roles in the Board committees have been assumed by the other independent directors.

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 steadfast and unwavering effort, support and commitment.

Last but not least, I would also like to thank you, our shareholders, as well as our customers, suppliers, bankers, business associates, government agencies and regulatory authorities, for the unrelenting support, trust and confidence in MFM during the year.

Tan Sri Dato’ Seri Utama Arshad bin Ayub

Chairman

Kuala Lumpur
23 March 2017

Management Discussion and Analysis

Group Strategy and Objective

Financial year 2016 has been a good year for MFM with remarkable improvement in profitability across our businesses despite of external global economic uncertainties, fluctuation in commodity prices and foreign exchange volatilities.

Our key success factors lie in our good manufacturing practices in which we have diligently honed over the past 50 years and also our industrialised approaches to agri-food production. By leveraging our core competencies in mass production, economies of scale, technical know-how and standardisation of best practices, we have been able to replicate our good manufacturing practices into the poultry integration business and expanding our flour business beyond Malaysia to Vietnam and Indonesia.

As a result, our Group has built a solid operating foundation upon two key pillars of growth – flour and grains trading and poultry integration segments. In short, our two business pillars are very much in line with our long-term vision to becoming a leading food manufacturing enterprise in the region.

Financial Performance Review

For the financial year ended 31 December 2016, our Group achieved a higher profit before tax (“PBT”) of RM111.3 million on the back of RM2.54 billion revenue.

On a year to year basis, our Group’s revenue increased by 10% from RM2.3 billion to RM2.54 billion for the current financial year. The increase in revenue was mainly due to higher sales volume in our businesses coupled with higher selling prices in the poultry products.

Our Group’s PBT increased by 154% from RM43.9 million previously to RM111.3 million for the current financial year mainly accounted by the improved operational efficiency and better margins in both segments coupled with share of profit of equity accounted joint venture in 2016 at RM6.4 million as compared to the previous financial year’s share of loss of RM21.8 million. Operating profit (before net interest) margin further improved from 3.2% to 4.5% despite of challenging factors on the operational front, particularly labour shortage, increasing wages and fluctuating currency.

However, the net financial expenses increased from RM8.6 million in the previous financial year to RM10.5 million for the current financial year mainly caused by the increase in borrowings to finance the purchase of grains.

As at 31 December 2016, our Group’s total assets stood at RM2.1 billion with cash and cash equivalents of RM371.2 million. Our Group’s EBITDA increased by 78% to RM169.5 million in the current financial year as compared to RM95.3 million previously.

Review of Operation

In 2016, with our continued diversification strategy, both our flour and grains trading and poultry integration segments were able to position themselves in a much more balanced bottom-line contribution.

Despite stiff competition and higher net fair value loss from future and options contracts in 2016, the operating profit of our flour and grains trading segment improved by 20% to RM53.7 million as compared to a year earlier with 47% constitution of our Group’s operating profit. The incremental revenue by 11% to RM1.7 billion in this segment made up 68% of our Group’s revenue as compared to the previous financial year. We have a total of five flour mills located in Lumut, Pasir Gudang, Hanoi, Ho Chi Minh City and Jakarta.

With the turnaround in our joint-venture in Indonesia, PT Bungasari Flour Mills Indonesia (“BFMI”), our Group’s share of profit of equity accounted joint venture in 2016 was at RM6.4 million as compared to the previous financial year’s share of loss of RM21.8 million recorded due to better margins and unrealised foreign exchange gains resulted by the appreciation of Indonesian Rupiah in 2016 as compared to a year earlier.

Over the past two years, the profitability of our poultry integration business has been on an uptrend with our successfully developed and implemented industrialised processes of better farming management system. The revenue for this segment increased by 10% to RM803 million as compared to the previous financial year with higher operating profit of RM61.5 million or 107% improvement and thereby constituting 53% of our Group’s operating profit. That was a result of higher sales volume, favourable market prices for both live-birds and poultry processed products, one-off insurance recoveries of RM5.3 million and higher fair value gain on biological assets in 2016. At present, our farms are located in the states of Perak, Kedah and Johor.

We humbly believe our poultry integration segment will continue to provide further earnings growth opportunity for us in the coming medium to longer term. We have since commenced the construction of a new state-of-the-art poultry processing plant in Sitiawan which will meet stringent requirements of international food standards and expected three-fold increase in our current production capacities.

Anticipated or Known Risks

During the preceding financial year, the weakening Ringgit took a toll on the imported commodities but we were fortunate to be cushioned by the lower commodity prices in grain. However, if Ringgit is to remain weak against the USD and if the prices of commodities are to go up, the cost of imports may surge in tandem. Any increase in cost is likely to be passed down to our consumers in part or alternatively to consider for further cost-cutting measures.

Due to the nature of the poultry industry and faced with inherent outbreak of avian diseases, we are always vigilant in managing our farms with comprehensive biosecurity measures in place.

In summary, we are confident that based on our track record and leading position in the flour and poultry industries, our Group will able to mitigate such risks with our proactive and preventive measures put in place.

Outlook and Prospects

2017 outlook appears to be cautiously optimistic. Towards the end of 2016, International Monetary Fund (“IMF”) forecasted the Malaysia economy to grow by 4.5% in 2017 with consumption expected to be moderate and growth at a much slower pace. Our Ringgit is expected to continue to be volatile but the Malaysian government measures are expected to have a stabilising and positive impact on the Ringgit in the near future. At the same time, prices of commodities such as wheat, corn, soybean meal and palm oil are expected to remain volatile too in 2017.

Nevertheless, despite the challenges of uncertain global economic environment, volatile commodity prices and fluctuating foreign exchange rates, we expect our Group’s performance to remain positive in 2017. Finally, MFM is committed and well positioned for future growth.