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Dutch Lady Milk Industries Berhad (5063-V)

(Incorporated in Malaysia)



AFFILIATE OF FRIESLAND COBERCO DAIRY FOODS, HOLLAND

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty-Ninth Annual General Meeting of the Company will be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan, on Thursday, 23 May 2002 at 10.00 a.m. for the following purposes:

ORDINARY BUSINESS

Ordinary Resolution 1

To receive and adopt the Audited Financial Statements for the year ended 31 December 2001, together with the Reports of the Directors' and Auditors' thereon.

Ordinary Resolution 2

To approve the declaration of a first and final dividend of 6.25 sen, less income tax, and a 1.25 sen tax exempt dividend, per RM1.00 ordinary share based on 64.0 million ordinary shares of RM1.00 each in respect of the year ended 31 December 2001.

Ordinary Resolution 3

To approve the Directors' fees for the financial year ended 31 December 2001.

Ordinary Resolution 4

To re-elect Mr. Ian Martin Gearing who retires by rotation pursuant to Article 94 of the Company's Articles of Association as a Director of the Company.

Ordinary Resolution 5

To re-elect Mr. Boey Tak Kong who retires pursuant to Article 97 of the Company's Articles of Association as a Director of the Company.

Ordinary Resolution 6

To re-elect Mr. James Smith Gray who retires pursuant to Article 97 of the Company's Articles of Association as a Director of the Company.

Ordinary Resolution 7

To re-elect Mr. Freek Rijna who retires pursuant to Article 97 of the Company's Articles of Association as a Director of the Company.

Ordinary Resolution 8

To re-appoint Messrs Ernst & Young as the Company's auditors and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following ordinary resolution:

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

Ordinary Resolution 9

"That approval be and is hereby given to the Company to renew the Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature to enter into and to give effect to the specific Recurrent Related Party Transactions as stated in Section 2.2.2 with the specified classes of Related Parties as stated in Section 2.2.1 of the Circular to Shareholders dated 18 April 2002 which are necessary for the Company's day to day operations subject to the following:-

- i) the transactions are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- ii) disclosure of the aggregate value of transactions of the Proposed Mandate Renewal conducted during the financial year will be disclosed in the Annual Report for the said financial year AND THAT such approval shall continue to be in force until:
 - (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the forthcoming AGM at which time it will lapse, unless by a resolution passed at the meeting the authority is renewed;
 - (b) the expiration of the period within which the next AGM of the Company subsequent to the date it is required to be held pursuant to Section 143(1) of the Malaysian Companies Act, 1965 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
 - (c) revoked or varied by resolution passed by the Shareholders in an AGM or an Extraordinary General Meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts as they may consider expedient or necessary to give effect to the Proposed Mandate Renewal."

Notice of Dividend Entitlement

NOTICE IS ALSO HEREBY GIVEN that the Register of Members will be closed by 5.00 p.m. on 30 May 2002 for the purpose of determining Shareholders' entitlements to the final and tax exempt dividend payments.

The dividends, if approved by the Shareholders, will be paid on 22 June 2002 to Shareholders whose name appear in the Register of Members and Record of Depositors at the close of business on 30 May 2002.

A Depositor shall qualify for entitlement to the final and tax exempt dividends only in respect of:

- a. Shares transferred to the depositor's securities account before 12.30 p.m. on 30 May 2002 in respect of ordinary transfers; and
- b. Shares bought on Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of Kuala Lumpur Stock Exchange.

By Order of the Board,

HUANG SHI CHIN (MIA 3891)
Company Secretary

Petaling Jaya
18 April 2002

Notes:

A Member entitled to attend and vote at a meeting of the Company is entitled to appoint a proxy/proxies to attend and vote instead of him. A proxy need not be a member of the Company and need not be an advocate, an approved company auditor or a person appointed by the Registrar of Companies.

Save for an Authorised Nominee as defined under the Securities Industry (Central Depositories) Act 1991 which may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member shall be entitled to appoint not more than two proxies to attend and vote at the same meeting provided that where a Member appoints two proxies, the appointment shall be invalid unless such Member specifies the proportion of his holdings to be represented by each proxy.

This form must be signed by the Member or his attorney duly authorised in writing, or if the appointor is a corporation, this form must be executed under its common seal or under the hand of its officer or attorney duly authorised.

To be valid, this form, duly completed (and, if applicable, the power of attorney or other authority under which it is signed or notarially certified copy of that power of authority) must be deposited at the Office not less than 48 hours before the time for holding the meeting or any adjournment thereof.

Explanatory Notes on Special Business:

Please refer to Circular dated 18 April 2002.

Statement Accompanying Notice of Annual General Meeting Pursuant to Paragraph 8.28(2) of the Listing Requirements of Kuala Lumpur Stock Exchange: Particulars of Directors seeking re-election or re-appointment at the Annual General Meeting

1. Directors who are standing for re-election at the Thirty-Ninth Annual General Meeting of the Company

Pursuant to Article 94 of the Company's Articles of Association:-

Mr. Ian Martin Gearing

Pursuant to Article 97 of the Company's Articles of Association:-

- i. Mr. Boey Tak Kong
- ii. Mr. James Smith Gray
- iii. Mr. Freek Rijna

2. Details of attendance of Directors at Board meetings

There were four Board meetings held during the financial year ended 31 December 2001. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 10 to 11 of the Annual Report.

3. Place, Date and Time of Board Meetings

All Board meetings during the financial year ended 31 December 2001 were held at Conference Room, 13, Jalan Semangat, 46200 Petaling Jaya, Selangor Darul Ehsan. The date and time of the Board meetings held were as follows:-

Date of Meetings	Time
27 February 2001	11.00 a.m.
23 May 2001	11.00 a.m.
9 August 2001	11.00 a.m.
12 November 2001	11.00 a.m.

4. Further details of Directors who are standing for re-election

Details of Directors who are standing for re-election are set out in the Directors' Profile appearing on pages 10 to 11 of the Annual Report.

Corporate Information

Board of Directors

Chairman

Tan Sri Kamarul Ariffin
bin Mohd. Yassin
- Independent
Non-Executive
Director

Directors

Ian Martin Gearing
- Executive Director

Tan Sri Dato' Dr. Ahmad
Mustaffa bin Hj. Babjee
- Non-Independent
Non-Executive
Director

Freek Rijna
- Non-Independent
Non-Executive
Director

Foo Swee Leng
- Non-Independent
Non-Executive
Director

James Smith Gray
- Non-Independent
Non-Executive
Director

Boey Tak Kong
- Independent
Non-Executive
Director

Secretary
Huang Shi Chin

Audit Committee

Chairman

Tan Sri Kamarul Ariffin
bin Mohd. Yassin

Members

Boey Tak Kong
Ian Martin Gearing

Secretary

Huang Shi Chin

Remuneration Committee

Chairman

Tan Sri Dato' Dr. Ahmad
Mustaffa bin Hj. Babjee

Members

Foo Swee Leng
Ian Martin Gearing

Secretary

Huang Shi Chin

Nomination Committee

Chairman

Tan Sri Kamarul Ariffin
bin Mohd. Yassin

Members

Foo Swee Leng
Boey Tak Kong

Secretary

Huang Shi Chin

Registered Office

13 Jalan Semangat
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7956 7477
Fax : 03-7954 6301

Registrar

13 Jalan Semangat
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7956 7477
Fax : 03-7954 6301

Auditors

Ernst & Young
4th Floor
Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur
Principal Bankers

Bumiputra Commerce
Bank Berhad
6, Jalan 14/4
46100 Petaling Jaya
Selangor Darul Ehsan

Public Bank Berhad
31, Jalan 14/20
46100 Petaling Jaya
Selangor Darul Ehsan

Solicitors

Khaw & Partners
6th Floor
Menara Boustead
Jalan Raja Chulan
50200 Kuala Lumpur

Oh Seng Dee & Co.
No. 11, 3rd Floor
Jalan 19/29
46300 Petaling Jaya
Selangor Darul Ehsan

H.K. Teh & Associates
No. 70-B, 2nd Floor
Jalan SS2/60
47300 Petaling Jaya
Selangor Darul Ehsan

Stock Exchange Listing

Kuala Lumpur Stock
Exchange



Chairman's Report



On behalf of the Board of Directors, I have pleasure in presenting the Company's Thirty-Ninth Annual Report and Audited Financial Statements for the year ended 31 December 2001.

The Board wishes to thank the Shareholders who attended the Extraordinary General Meeting on 25 January 2002 for unanimously approving all the resolutions put forth.

Following the approval at the EGM, Shareholders are rewarded for their loyalty with the long awaited three for one bonus issue. The Company's Memorandum of Association has been amended and a new set of Articles of Association adopted.

With the uncertainties over the economy in 2001, there was cautiousness in the local dairy market with softness in demand and severe price discounting as competitors tried to preserve their market share. For the Company, whilst the milk powder category performed satisfactorily, the liquid milk category came under severe competitive pressure. As a result, our turnover grew marginally from RM323.3 million in the previous year to RM329.0 million in the year under review.

Despite the very high world dairy raw material prices, because of prudent inventory management, the Company achieved an operating profit of RM15.1 million in 2001 compared to RM17.9 million in 2000. The results in 2000 included an exceptional gain of RM1.0 million from the sale of its 29% equity interest in the joint venture company.

The prospects for 2002 remain challenging. Although there may be some relief in world dairy raw material prices, the Company will need to invest to protect its market share against competition, which has been ever more aggressive.

The substantial RM13.0 million re-development in the factory to enhance milk processing facilities will continue through 2002 and is expected to be completed in 2003.

Your Directors recommend to maintain the net dividend quantum of RM2,880,000 and RM800,000 tax-exempt dividend in respect of the year ended 31 December 2001. We hope that you will be patient with our prudent stance. Your Directors will review the position in the future, balancing the needs of the Shareholders and the Company for working capital and capital investment purposes.

There has been several changes to the Board recently to comply with the Kuala Lumpur Stock Exchange rules. Mr. Boey Tak Kong joined the Board as one of the Independent Non-Executive Directors. Mr. Boey, an Accountant by profession, will provide invaluable contribution to the Audit Committee.

The other Board changes are Mr. James Smith Gray replacing Mr. A.A. Olijslager, and Mr. Freek Rijna, replacing Mr. Johan Priem. The Board would like to express its gratitude to Mr. Olijslager and Mr. Priem for their service to the Company and to bid a warm welcome to Mr. Boey, Mr. Gray and Mr. Rijna and look forward to their contribution to the Company's success.

As always, on behalf of the Board, I would like to convey our sincere thanks to the Management and Staff of the Company for their hard work in 2001 and to wish them even greater success in the current year.

TAN SRI KAMARUL ARIFFIN

Chairman

STATEMENT ON THE APPLICATION BY THE COMPANY OF THE PRINCIPLES AND PRACTICES OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE Pursuant to Paragraph 15.26 of the listing requirements of the Kuala Lumpur Stock Exchange

The Board of Directors is pleased to report to Shareholders on the manner the Company has applied the Principles, and the extent of compliance with the Best Practices of good governance as set out in Part 1 and Part 2 respectively of the Malaysian Code on Corporate Governance ('the Code') pursuant to Paragraph 15.26 of the Listing Requirements of Kuala Lumpur Stock Exchange ('the Listing Requirements').

1 The Board of Directors

1.1 Composition

The Board comprises seven directors; four of whom are non-independent non-executive directors and two are independent non-executive directors within the meaning of Chapter 1.01 of the Listing Requirements. The Board is required under Paragraph 15.02 of the Listing Requirements to ensure that it has one-third independent directors.

The Board has identified its senior Independent and Non-Executive Chairman, Tan Sri Kamarul Ariffin bin Mohd. Yassin, to whom concerns of shareholders, management and others may be conveyed.

Duties and Responsibilities

The Company is led by an experienced Board under a Chairman who is an Independent and Non-Executive director. The roles of the Chairman and Managing Director are separate and each has a clearly accepted division of responsibilities. The Board has within it, professionals drawn from varied backgrounds, bringing depth and diversity in experience, expertise and perspectives to the Company's business operations. The profiles of the members of the Board are set out in this Annual Report on page 10 to 11.

The Board is ensured of a balanced view at all Board deliberations largely due to the presence of its non-executive directors who form a majority of the Board. More importantly, the Board has as members, independent non-executive directors who are independent from Management and major shareholders of the Company. The independent directors are also free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Together with the Managing Director who has intimate knowledge of the Company's business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities. As part of its commitment, the Board

supports the highest standards of corporate governance and the development of best practices for the Company.

The Board retains full and effective overall control of and responsibility for the Company. This includes the following six specific responsibilities in the discharge of its duties:

- reviewing and adopting a strategic plan for the Company.
- overseeing the conduct of the Company's business to evaluate whether the business is being properly managed. The Board plays a supportive yet watchful role over the performance of Management.
- identifying principal risks to ensure the implementation of appropriate systems to manage these risks.
- establishing succession planning, including the appointment, training and fixing of compensation and where appropriate, replacement of senior management.
- maintaining shareholder and investor relations for the Company.
- reviewing the adequacy and the integrity of the Company's internal control systems and Management systems; including systems for compliance with applicable laws, regulations rules, directives and guidelines.

2 Board Meetings

The Board meets at least four times a year and has a formal schedule of matters reserved to it. Additional meetings are held as and when required. It meets within two months of the end of every quarter of the financial year, whereat, the Company's financial statements and results are deliberated and considered. The Board and its Committees are supplied with sufficient information to enable them to discharge their responsibilities. During these meetings, the Board also appraises business proposals, reviews the management or performance of the business and any other strategic issues that affect or may affect the Company's business.

During the financial year, the Board met four times; whereat it deliberated and considered a variety of matters including the Company's financial results, the business plan and direction of the Company. The Board receives documents on matters requiring its

consideration prior to and in advance of each meeting. The Board papers are comprehensive and encompass all aspects of the matters being considered enabling the Board to look at both the quantitative and qualitative factors so that informed decisions are made.

Directors have access to information within the Company and to the advice and services of the Company Secretary who is responsible for ensuring that Board Meeting procedures are followed and that applicable rules and regulations are complied with. The Directors also have access to independent professional advice in furtherance of their duties.

The attendance of the Directors at the Board Meetings is set out in the Directors' Profile appearing on pages 10 and 11 of the Annual Report pursuant to Paragraph 9.25 (1) of the Listing Requirement.

3 Re-Election of Directors

At least one-third of the Directors are required to retire by rotation each financial year in accordance with the Company's Articles of Association and can offer themselves for re-election at the Annual General Meeting. Directors who are appointed by the Board to fill a casual vacancy are subject to election by Shareholders at the next Annual General Meeting following their appointment. The Company's Articles of Association was amended at the Extraordinary General Meeting held on 25 January 2002 to provide that Managing Director will also be subject to re-election by rotation once every three years to comply with Paragraph 7.28 of the Listing Requirements.

In this Annual Report, details of Directors seeking re-election pursuant to Paragraph 8.28 of the Listing Requirements such as their age, relevant experience, list of directorships, dates of appointment, details of participation in Board Committees and the fact that they are independent are set out in the Director's Profile appearing on pages 10 to 11 of the Annual Report.

4 Directors' Training

During the financial year, all the Directors, except for Mr Freek Rijna who was appointed on 16 January 2002, attended and successfully completed the Mandatory Accreditation Programme (MAP) conducted by the Research Institute of Investment Analysis Malaysia (RIIAM); an affiliate company of Kuala Lumpur Stock Exchange.

5 Directors' Remuneration

Non-executive directors are paid attendance allowance for each Board or Committee Meeting they attend. Directors fees are paid to non-executive directors and these are approved by Shareholders at the Annual General Meeting. The Executive Director is not paid attendance allowance and directors fees.

The Company has adopted the objectives as recommended by the Malaysian Code of Corporate Governance to determine the remuneration of Directors so as to ensure that the Company attracts and retains the Directors needed to run the Company successfully.

The aggregate remuneration of Directors for the financial year ended 31 December 2001 is as follows:

Executive Directors	RM712,265
Non-Executive Directors	RM 40,000

The number of Directors whose total remuneration falls within the following bands is as follows:

Range of Remuneration	Executive Director	Non-Executive Director
Below RM50,000	-	2
RM250,001 to RM300,000	1	-
RM450,001 to RM500,000	1	-

Mr. J.J. Pottinga, the Alternate Director to Mr. A.A. Olijslager, was an Executive Director who resigned from his position on 21 November 2001.

6 Board Committees

As appropriate, the Board has delegated certain responsibilities to Board Committees which operate within clearly defined terms of reference. These Committees are:

6.1 Audit Committee

The Company's Audit Committee assists and supports the Board's responsibility to oversee the Company's operations in the following manner:-

- provides a means for review of the Company's processes for producing financial data, its internal controls and independence of the Company's External and Internal Auditors.
- reinforces the independence of the Company's External Auditors.
- reinforces the objectivity of the Company's Internal Audit function.

The Audit Committee comprises three directors (two of whom, including the Chairman, are independent non-executive directors). The members are:

1. Tan Sri Kamarul Ariffin bin Mohd. Yassin (Independent Non-Executive Director)
- Chairman
2. Mr. Boey Tak Kong (Independent Non-Executive Director)
3. Mr. Ian Martin Gearing (Executive Director)

The Committee's terms of reference include the review of and deliberation on the Company's financial statements, the audit findings of the External Auditors arising from their audit of the Company's financial statements and, with effect from 1 January 2002, the audit findings and issues raised by the Internal Auditors together with the Management's responses thereon. The Director of Finance and Admin., Internal Auditors and External Auditors attend meetings at the invitation of the Audit Committee.

The Committee also reviews the Company's Quarterly Unaudited Statements and Final Audited (twelve months) Financial Statements before they are considered, deliberated and approved by the Board as well as related party transactions and any conflicts of interest situations during the year.

The Audit Committee Report for the financial year pursuant to Paragraph 15.16 of the Listing

Requirements is contained on page 12 to 14 of this Annual report.

Best Practices BB Part 2 and Part 4 of the Code and paragraph 15.13 of the Listing Requirements spell out the duties of an Audit Committee. The scope of duties of the Company's Audit Committee includes primarily the duties detailed therein.

The terms of reference of the Audit Committee, its activities during the financial year, details of attendance of each member of the Committee and the number of meetings held are set out on pages 12 to 14 of this Annual Report.

6.2 Nomination Committee

In compliance with the Listing Requirements, a Nomination Committee was established by the Board on 12 November 2001. The Committee comprises three directors, two of whom are independent. The members are:

1. Tan Sri Kamarul Ariffin bin Mohd. Yassin (Independent Non-Executive Director)
- Chairman
2. Mr. Boey Tak Kong (Independent Non-Executive Director)
3. Mr. Foo Swee Leng (Non-Independent Non-Executive Director)

The Committee's responsibility among others, is to propose or review new nominees for the Board and Board Committees, to assess the effectiveness of Board as a whole, examine its size with a view to determine the impact of its number upon its effectiveness, the Committees of the Board and the individual directors on an on-going basis, and to annually review the required skills and core competencies of non-executive directors. The Committee also ensures that an orientation and education programme is in place for new Board members.

6.3 Remuneration Committee

In compliance with the Listing Requirements, the Board established a Remuneration Committee on 12 November, 2001, comprising three directors,

two of whom are non-executive directors. The Committee's primary responsibility is to recommend to the Board, the remuneration of directors (executive and non-executive) in all its forms, drawing from outside advice if necessary. Nevertheless, the determination of remuneration packages of Directors is a matter for the Board as a whole and individuals are required to abstain from discussion of their own remuneration.

The members are:

1. Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee (Non-Independent Non-Executive Director)
- Chairman
2. Mr. Foo Swee Leng (Non-Independent Non-Executive Director)
3. Mr. Ian Martin Gearing (Executive Director)

7. Accountability and Audit

7.1 Financial Reporting:

Statement of Directors' Responsibility in respect of Audited Financial Statements pursuant to Paragraph 15.27(a) of the Listing Requirements.

The Board aims to provide and present a balanced and meaningful assessment of the Company's financial performance and prospects at the end of the financial year, primarily through the Financial Statements, and the Chairman's Statement in the Annual Report.

Directors are required pursuant to Section 169 (15) of the Companies Act, 1965 to state whether the Company's Financial Statements drawn for the financial year are drawn up in accordance with approved accounting standards so as to give a true and fair view of the Company's state of affairs and of the results of the Company's business operations for the financial year. This statement is signed by the Managing Director, Mr. Ian Martin Gearing and Mr. Foo Swee Leng for and on behalf of the Board and is set out on page 32 of this Annual Report.

In preparing the above Financial Statements, the Directors have:

- adopted suitable accounting policies and then applied them consistently.

- made judgements and estimates that are prudent and reasonable.
- ensured applicable accounting standards have been followed.
- disclosed and explained in the financial statements, and
- prepared the financial statements on an ongoing basis.

The Company's quarterly and annual results announcement are released to Shareholders within the stipulated time frame to reinforce the Board's commitment to provide a true and fair view of the Company's operations.

7.2 Internal Audit

Messrs Deloitte & Touche Management Solutions Sdn Bhd was engaged on 12 November 2001 to carry out the Company's Internal Audit function effective 1 January 2002. The Company, believes that an outsourced internal audit function, which is independent from the Company, is best suited for the Company in rendering an objective assessment of the Company's compliance with internal controls, with due professional care and proficiency.

An internal audit review would highlight any major weaknesses in control procedures and make recommendations for improvements. The Internal Audit function reports to the Audit Committee to ensure independence of its position.

7.3 External Audit

The Company's independent External Auditors fill an essential role for the Shareholders by enhancing the reliability of the Company's financial statements and giving assurance of that reliability to users of these financial statements.

The External Auditors have an obligation to bring any significant weaknesses in the Company's system of control and compliance to the attention of the Management, Audit Committee and the Board.

8 Relations with Shareholders and Investors

The Annual General Meeting (AGM) is the principal forum for dialogue with individual shareholders. It is a crucial mechanism in shareholder communication for the Company. At the Company's AGM, which is generally well attended, Shareholders have direct access to the Board and are given the opportunity to ask questions during the open question and answer session prior to the moving of the motion to approve of the Company's Audited Financial Statements and Directors' Report for the financial year. The Shareholders are encouraged to ask questions both about the resolutions being proposed or about the Company's operations in general.

Additionally, a press conference is held immediately after the AGM whereat the Chairman and the Managing Director advise members of the media of the resolutions passed, and answer questions on the Company's operations posed by the reporters. Members of the media are also invited to the Company's product launches where clarifications are given on the products and business in general.

Timely announcements are also made to the Kuala Lumpur Stock Exchange in accordance with the Listing Rules.

9 Compliance with the Code of Corporate Governance

During the year the Company implemented several changes which are mentioned in this Annual Report in order to comply with the Principles and Best Practices of the Code of Corporate Governance.

DIRECTORS' PROFILE

TAN SRI KAMARUL ARIFFIN BIN MOHD YASSIN

Aged 68. Malaysian. Independent Non-Executive Director. Chairman of the Company since 27 February 1976. Chairman of the Audit Committee and Nomination Committee. Also Group Executive Chairman of Utusan Melayu (M) Berhad and a director of British American Tobacco (M) Berhad. Chairman of the Board of Trustees of the National Art Gallery, Vice-Chairman of Dewan Bahasa dan Pustaka, President of the Malaysian Film Producers Association and Vice-Chairman of the Asian Media Information & Communication Centre. Formally a Member of the Senate of the Malaysian Parliament. A lawyer by profession. No family relationship with / not related to any director and / or major shareholder of the Company, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Attended four Board Meetings held during the financial year.

MR. IAN MARTIN GEARING

Aged 51. British. Executive Director. Managing Director of the Company since 3 November 1997. Member of the Audit Committee and Remuneration Committee. Not a director of any other public listed company. A board member of the Malaysian Dutch Business Council. Holds a degree in International Marketing from the University of London, England. No family relationship with / not related to any director and / or major shareholder of the Company other than as nominee director of Friesland Coberco Dairy Foods Holding NV, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Attended four Board Meetings held during the financial year.

TAN SRI DATO' DR. AHMAD MUSTAFFA BIN HAJI BABJEE

Aged 64. Malaysian. Non-Independent Non-Executive Director. Appointed to the Board on 2 February 1999. Chairman of the Remuneration Committee. Also a director of Consolidated Farms Berhad and Cosma Farms Berhad. Currently Executive Chairman of an event management company. Formally Director-General of the Veterinary Services Department. Holds a doctorate in Veterinary Science from the University of Queensland, Australia. No family relationship with / not related to any director and / or major shareholder of the Company other than as nominee director of Permodalan Nasional Berhad, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Attended four Board Meetings held during the financial year.

MR FOO SWEE LENG

Aged 55. Malaysian. Non-Independent Non-Executive Director. Appointed to the Board on 18 June 1986. Member of the Remuneration Committee and Nomination Committee. Formerly the Managing Director of the Company. Not a director of any other public listed company. Holds a degree in Economics from University Malaya. No family relationship with / not related to any director and / or major shareholder of the Company other than as nominee director of Friesland Coberco Dairy Foods Holding NV, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Attended four Board Meetings held during the financial year.

MR. BOEY TAK KONG

Aged 47. Malaysian. Independent Non-Executive Director. Appointed to the Board on 12 November 2001. Member of the Audit Committee and Nomination Committee. Also a Director of Econstates Berhad and Sanbumi Holdings Berhad. Currently the Managing Director of Terus Mesra Sdn Bhd, a management consulting and corporate advisory services company. A Fellow Member of the Chartered Association of Certified Accountants, United Kingdom, Associate Member of the Institute of Chartered Secretaries & Administrators, United Kingdom and Chartered Accountant of the Malaysian Institute of Accountants. No family relationship with / not related to any director and / or major shareholder of the Company, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Since appointed as Director on 12 November 2001, attended one Board Meeting held during the financial year.

MR. FREEK RIJNA

Aged 46. Dutch. Non-Independent Non-Executive Director. Appointed to the Board on 16 January 2002. Not a member of any committee. Currently the Managing Director of Friesland Asia Pacific, a division of Friesland Coberco Dairy Foods Holding NV. Not a director of any other public listed company. Holds a degree in Economics / Business Administration from Erasmus University, the Netherlands. No family relationship with / not related to any director and / or major shareholder of the Company other than as nominee director of Friesland Coberco Dairy Foods Holding NV, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. As was appointed as Director on 16 January 2002, did not attend any Board Meetings held during the financial year.

MR. JAMES SMITH GRAY

Aged 56. British. Non-Independent Non-Executive Director. Appointed to the Board on 21 November 2001. Not a member of any committee. Currently the Managing Director of Frische Vlag Indonesia PT, a subsidiary of Friesland Coberco Dairy Foods Holding NV. Not a director of any other public listed company. Holds a degree from Strathclyde University, Scotland. No family relationship with / not related to any director and / or major shareholder of the Company other than as nominee director of Friesland Coberco Dairy Foods Holding NV, does not have any conflict of interest with the Company and has no convictions for offences within the past ten years. Does not hold any shares in the Company. Since appointed as a Director on 21 November 2001, did not attend any Board Meetings held during the financial year.

REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE FOR THE CURRENT FINANCIAL YEAR

Pursuant To Paragraph 15.16 Of The Listing Requirements Of The Kuala Lumpur Stock Exchange

1. Role of the Audit Committee

An independent Audit Committee assists, supports and implements the Board's responsibility to oversee the Company's operations in the following manner:-

- provides a means for the review of the Company's processes for producing financial data, its internal controls and independence of the Company's External and Internal Auditors.
- reinforces the independence of the Company's External Auditors.
- reinforces the objectivity of the Company's Internal Audit function.

2. Terms of Reference

The Board established the Audit Committee on 29 April 1994.

- **Composition**

The Committee comprises three Directors, a majority of whom is independent. The Chairman is an Independent Non-Executive Director. One member of the Committee is a professional accountant.

- **Quorum**

The quorum for the Meeting is three, the majority of whom (i.e. two) is independent non-executive directors.

- **Agenda and Notice of Meeting**

The Company Secretary is responsible, with the concurrence of the Chairman, for preparing and circulating the Agenda and the Notice of Meeting, together with supporting explanatory documentation to members of the Committee prior to each meeting.

- **Attendance at Meeting**

The Director of Finance & Admin., Internal Auditor and External Auditor attend meetings by invitation of the Committee. Other Board Members have the right of attendance.

- **Frequency of Meetings**

Meetings are held not less than four times a year. The External Auditors may request a meeting if they consider that one is necessary.

- **Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise as it deems necessary.

- **Duties**

The duties of the Committee are:

- (a) to recommend to the Board the appointment of the External Auditors and the audit fee thereof.
- (b) to make appropriate recommendations to the Board on matters of resignation or dismissal of the External Auditors.
- (c) to discuss with the External Auditors their audit plan, the nature and scope of the audit, evaluation of the Company's system of internal controls and audit report on the annual financial statements.
- (d) to review the quarterly and annual financial statements of the Company before submission to the Board of Directors, focusing particularly on:
 - (i) public announcement of the results and dividend payment.
 - (ii) any changes in accounting policies and practice.
 - (iii) the going concern assumption.
 - (iv) compliance with accounting standards.
 - (v) compliance with stock exchange and legal requirements, and
 - (vi) significant and unusual events.
- (e) to discuss problems and reservations arising from the interim and final audits, and any matters the External Auditors may wish to discuss.
- (f) to review the External Auditors' letter to Management and Management's response thereon.

- (g) to review the internal audit programme, ensure co-ordination between the Internal and External Auditors, ensure that the internal audit function is professionally managed, adequately resourced and given the necessary authority to carry out its work.
- (h) to consider the findings of internal audit and investigations and Management's response thereon.
- (i) to consider any related party transactions and conflict of interest situations that may arise within the Company.
- (j) To consider the level of assistance given by the employees of the Company to the External and Internal Auditors, and
- (k) to consider other topics, as defined by the Board.

- **Reporting Procedures**

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

Detailed audit reports by the Internal Auditor and the respective Management response are circulated to members of the Committee before each Meeting at which the said reports are tabled.

3. Membership and Meetings of the Committee

The Committee's composition was reconstituted during the financial year, following the requirement of Paragraph 15.10 of the Listing Requirements that a majority of its members must be independent non-executive directors.

The members of the Committee prior to the change in its composition on 12 November 2001 were:-

1. Tan Sri Kamarul Ariffin bin Mohd. Yassin
(Independent, Non-Executive Director) - Chairman
2. Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee
(Non-Independent, Non-Executive Director)
3. Mr. Foo Swee Leng
(Non-Independent, Non-Executive Director)
4. Mr. Ian Martin Gearing (Executive Director)

During its tenure, the Committee met four times during the financial year, from February 2001 to November 2001. There was full attendance for all the Meetings.

The membership of the Committee as at 12 November 2001 was as follows:

1. Tan Sri Kamarul Ariffin bin Mohd. Yassin
(Independent, Non-Executive Director)
- Chairman
2. Mr. Boey Tak Kong
(Independent, Non-Executive Director)
3. Mr. Ian Martin Gearing (Executive Director)

Mr. Boey Tak Kong, being a member of the Malaysian Institute of Accountants, fulfills the requirement of paragraph 15.10(1) (c) of the Listing Requirements of the Kuala Lumpur Stock Exchange.

Since their appointment, and as at the date of this Annual Report, the Committee met once, i.e. on 22 February 2002, to consider and review inter alia the Audited Financial Statements for the financial year ended 31 December 2001, the final dividend recommendations and the Fourth Quarter Results of the Company.

4. Internal Audit Function

The Company established an Internal Audit function on 12 November 2001 with the appointment of Deloitte & Touche Management Solutions Sdn Bhd, who is independent of the activities or operations of the Company. The Internal Auditors will undertake the audit of the Company's business units, review the units' compliance with internal control procedures, highlight weaknesses and make appropriate recommendations to the Company for improvements.

5. Summary of Audit Committee's Activities

The Audit Committee met at scheduled times during the year; with due notices of meetings issued, and with agendas planned and itemised so that matters were deliberated and discussed in a focused and detailed manner. The minutes of each meeting held were distributed to each member of the Board at the subsequent Board Meeting. The Audit Committee Chairman reported on each meeting to members of the Board.

The Audit Committee's activities during financial year ended 31 December 2001 included the review of:

- (i) the audit plan, nature and scope of the audit with the External Auditors;
- (ii) the findings and recommendations by the External Auditors on systems and control weaknesses, and ensured implementation of corrective actions by Management;
- (iii) the compliance with accounting standards issued by the Malaysian Accounting Standards Board and ensured that the Company used appropriate accounting policies for its financial statements which are consistently applied;
- (iv) the Company's quarterly financial results and recommend the same to the Board for approval and announcement the Kuala Lumpur Stock Exchange and Securities Commission;
- (v) the Company's audited accounts for the year and audit report on the financial statements as presented by the External Auditors and recommend the same to the Board for approval, and
- (vi) the related party transactions and any conflicts of interest situations during the year.

Financial Statements



DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31st December 2001.

PRINCIPLE ACTIVITIES

The principal activities of the Company are the manufacture of sweetened condensed milk, milk powder, dairy product and fruit juice drinks for distribution in the home market and for export.

There have been no significant changes in the nature of these activities during the year.

RESULTS

	RM
Profit after taxation	12,004,067
Retained profit brought forward	90,898,817
	<u>102,902,884</u>
Dividends	(3,680,000)
Retained profit carried forward	<u>99,222,884</u>

There were no material transfers to or from reserves or provisions during the year.

In the opinion of the Directors, the results of the operations of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

During the year, final dividend of 25 sen per share, less tax at 28%, and 5 sen per share, tax exempted, amounting to RM3,680,000 were paid in respect of the previous year, as proposed in the Directors' Report for that year.

The Directors propose the following dividends be paid in respect of the year under review :-

- (a) 5 sen per share, tax exempted, amounting to RM800,000 and
- (b) 25 sen per share, less tax at 28%, amounting to RM2,880,000

based on 16.0 million ordinary shares of RM1.00 each in issue as at 31 December 2001.

If as expected, the proposed bonus issue of three new ordinary shares for every one existing ordinary share held of 48.0 million shares (refer Note 21) is allotted and listed on the KLSE before the final dividend entitlement date, then the first and final ordinary dividend payment shall be 6.25 sen less 28% income tax and a tax exempt dividend of 1.25 sen per RM1.00 share based on 64.0 million ordinary shares of RM1.00 each in issue at that time.

SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

At an Extraordinary General Meeting held on 25 January 2002:-

- (i) the shareholders approved the increase of the authorised share capital from RM25.0 million to RM100.0 million by the creation of an additional 75.0 million new ordinary shares of RM1.00 each; and
- (ii) the shareholders approved a bonus issue of 48.0 million new ordinary shares on the basis of three new ordinary shares of RM1.00 each for every existing ordinary share of RM1.00 in issue, by the capitalisation of RM11.2 million from the share premium account and RM36.8 million from the retained earning of the Company. The bonus issue will result in the issue of 48.0 million new ordinary shares of RM1.00 each credited as fully paid at par, thereby increasing the issued and fully paid share capital of the Company to RM64.0 million.

DIRECTORS

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Kamarul Ariffin bin Mohd. Yassin
 Ian Martin Gearing
 Foo Swee Leng
 Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee
 Boey Tak Kong (Appointed on 12.11.01)
 James Smith Gray (Appointed on 21.11.01)
 Freek Rijna (Appointed on 16.01.02)
 Andries Arij Olijslager (Resigned on 21.11.01)
 Jochum Jan Pottinga
 (Alternate to Andries Arij Olijslager)
 (Resigned on 21.11.01)
 Johan Priem (Resigned on 16.01.02)

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangement to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the Directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act 1965, an interest in shares in the Company.

Since the end of the previous financial year, none of the Directors has received or become entitled to receive any benefits (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest required to be

disclosed by Section 169(8) of the Companies Act 1965.

OTHER STATUTORY INFORMATION

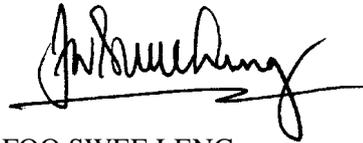
- (a) Before the Income Statement and Balance Sheet of the Company were made out, the Directors took reasonable steps:-
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:-
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:-
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

On behalf of the Board,



IAN MARTIN GEARING
Director



FOO SWEE LENG
Director

22 February 2002

AUDITORS

The auditors, Ernst & Young have expressed their willingness to continue in office.

INCOME STATEMENT

for the year ended 31 December 2001

	Note	2001 RM	2000 RM
REVENUE	3	329,045,416	323,303,725
COST OF SALES		(230,447,664)	(225,443,116)
GROSS PROFIT		98,597,752	97,860,609
OTHER OPERATING INCOME		7,724,763	3,751,121
DISTRIBUTION COSTS		(62,299,343)	(56,790,694)
ADMINISTRATIVE EXPENSES		(8,429,258)	(7,995,294)
OTHER OPERATING EXPENSES		(20,442,577)	(19,914,958)
PROFIT FROM OPERATIONS		15,151,337	16,910,784
FINANCE COSTS		(17,270)	(36,825)
		15,134,067	16,873,959
EXCEPTIONAL ITEM	4	–	997,000
PROFIT BEFORE TAXATION	4	15,134,067	17,870,959
TAXATION	5	(3,130,000)	(3,000,000)
PROFIT AFTER TAXATION		12,004,067	14,870,959
DIVIDENDS	6	(3,680,000)	(3,680,000)
		8,324,067	11,190,959
RETAINED PROFIT BROUGHT FORWARD		90,898,817	79,707,858
RETAINED PROFIT CARRIED FORWARD		99,222,884	90,898,817
EARNINGS PER SHARE			
- Basic earnings per share (sen)	7	0.75	0.93
- Proforma earnings per share (sen)	7	0.19	0.23

The annexed notes form an integral part of these financial statements.

BALANCE SHEET

as at 31 December 2001

	Note	2001 RM	2000 RM
ASSETS EMPLOYED:			
Property, Plant and Equipment	8	62,870,622	59,879,977
CURRENT ASSETS			
Inventories	9	52,057,231	72,808,710
Trade debtors	10	48,336,980	54,252,249
Other debtors, deposits and prepayments	11	6,227,535	3,382,343
Amounts due from related companies	12	3,023,736	2,988,852
Cash and cash equivalents	13	11,113,044	4,272,532
		120,758,526	137,704,686
LESS: CURRENT LIABILITIES			
Trade creditors		28,671,812	49,265,597
Other creditors and accruals		14,606,120	18,426,481
Amount due to related companies	12	4,219,680	1,657,682
Taxation		3,124,530	2,520,951
Proposed dividends		3,680,000	3,680,000
		54,302,142	75,550,711
NET CURRENT ASSETS			
		66,456,384	62,153,975
FINANCED BY:			
Share Capital	14	16,000,000	16,000,000
Share Premium		11,200,000	11,200,000
Retained Profit	15	99,222,884	90,898,817
		126,422,884	118,098,817
Retirement Benefits	16	24,085	555,098
Deferred Taxation	5	2,880,037	3,380,037
		129,327,006	122,033,952

The annexed notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2001

	<u>Share capital</u> RM	<u>Share premium</u> RM	<u>Retained profit</u> RM	<u>Total</u> RM
At 1 January 2000	16,000,000	11,200,000	79,707,858	106,907,858
Net profit for the year	–	–	14,870,959	14,870,959
Dividends	–	–	(3,680,000)	(3,680,000)
	16,000,000	11,200,000	90,898,817	118,098,817
At 31 December 2000				
Net profit for the year	–	–	12,004,067	2R,004,067
Dividends	–	–	(3,680,000)	(3,680,000)
	16,000,000	11,200,000	99,222,884	126,422,884
At 31 December 2001				

The annexed notes form an integral part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2001

	Note	2001 RM	2000 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		339,302,259	328,592,755
Cash paid to suppliers and employees		(315,591,055)	(330,249,131)
Cash generated from/(absorbed by) operations		23,711,204 (3,026,421)	(1,656,376) –
Net cash inflow/(outflow) from operating activities		<u>20,684,783</u>	<u>(1,656,376)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(10,837,500)	(8,439,802)
Proceeds from disposal of property, plant and equipment		448,327	303,500
Proceeds from disposal of associated companies		–	1,000,000
Interest income		242,172	479,076
Net cash outflow from investing activities		<u>(10,147,001)</u>	<u>(6,657,226)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(17,270)	(36,825)
Dividends paid		(3,680,000)	(2,880,000)
Net cash outflow from financing activities		<u>(3,697,270)</u>	<u>(2,916,825)</u>
Net change in cash and cash equivalents		6,840,512	(11,230,427)
Cash and cash equivalents brought forward		4,272,532	15,502,959
Cash and cash equivalents carried forward	13	<u>11,113,044</u>	<u>4,272,532</u>

The annexed notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2001

1. GENERAL

The registered office and principal place of business of the Company are located at 13, Jalan Semangat, P.O. Box 122, 46710 Petaling Jaya.

The principal activities of the Company are the manufacture of sweetened condensed milk, milk powder, dairy products and fruit juice drinks for distribution in the home market and for export.

The financial statements are expressed in Ringgit Malaysia.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of certain properties and comply with approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). Certain long leasehold land is stated based on an external valuation undertaken in 1968 at market value. As allowed by the transitional provisions adopted by the MASB in respect of International Accounting Standard 16 (Revised), Property, Plant and Equipment, this property has continued to be stated on the basis of its 1968 valuation.

(b) Property, Plant and Equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation.

Leasehold land is amortised over the periods of the leases, both of which expire in 2059.

Depreciation on other property, plant and equipment is calculated on a straight line basis to write down the assets to their residual values over their estimated useful lives. The principal annual rates of depreciation used are as follows:-

Buildings	-	2%
Plant and machinery	-	10%
Motor vehicles	-	16.7%
Furniture and equipment	-	10 - 25%

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis.

Cost includes the actual cost of materials and incidentals incurred in bringing the inventories into store. It also includes direct labour and attributable production overheads. In arriving at net realisable value, due allowance is made for obsolete and slow-moving items.

(d) Debtors

Trade debtors are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of full amount is subject to uncertainty. Bad debts are written off when so determined.

(e) Retirement Benefits

The retirement benefits are in respect of retirement gratuities for eligible employees employed prior to 1 April, 1989, when it was the previous policy of the Company to offer such gratuities. Subsequent to that date, staff retirement gratuities for eligible employees are paid by way of contributions to the statutory Employees Provident Fund.

(f) Currency Translation

Transactions denominated in foreign currencies are recorded in Ringgit Malaysia at the exchange rates ruling at the time to the transactions or at contracted rates, as applicable. Where settlement had not taken place by the balance sheet date, the monetary balances are translated at approximate rates ruling at that date or at contracted rates, as applicable. All exchange differences arising are charged or credited in the income statement.

The principal exchange rates used in translation of foreign currency amounts are as follows:-

	<u>31.12.01</u>	<u>31.12.00</u>
Foreign Currency	RM	RM
1 US Dollar	3.8000	3.8000
1 Euro	3.3645	3.5700

(g) Deferred Taxation

Deferred taxation is provided for in the financial statements by the liability method for taxation, deferred by capital allowances and other timing differences, except where tax effects on these timing differences are expected to be deferred indefinitely.

Deferred tax benefits are recognised only if there is a reasonable expectation of their realisation.

(h) Cash and Cash Equivalents

Cash and cash equivalents as stated in the balance sheet and cash flow statement comprise cash and bank balances including deposits available on demand, against which overdraft balances, if any, are deducted. Trade-related certificates and facility balances against trade receivables or payables are classified within financing activities and therefore excluded from cash and cash equivalents in the cash flow statement.

(i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised.

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

(j) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

3. REVENUE

Revenue represents the gross invoiced value of goods supplied less returns and discounts.

4. PROFIT BEFORE TAXATION

	2001	2000
	RM	RM
This is arrived at after charging/(crediting):-		
Depreciation of property, plant and equipment	7,659,468	7,201,034
Rent of buildings	380,732	108,940
Hire of equipment	68,987	52,461
Auditors' remuneration		
- audit	49,000	46,000
- other services	20,000	-
Directors' remuneration		
- fees	40,000	40,000
- other emoluments	480,666	527,558
- benefits in kind	231,599	145,050
Management fee payable to holding company	30,000	30,000
Provision for bad and doubtful debts	3,055,331	510,000
Bad debts written off	-	2,278
Provision for doubtful debts written back	(1,241,190)	-
Interest expense	17,270	36,825
Interest income	(242,172)	(479,076)
Gain on disposal of property, plant and equipment	(260,940)	(301,984)
Exceptional item : gain on disposal of associated companies	-	(997,000)
	=====	=====

5. TAXATION

	2001	2000
	RM	RM
Malaysian taxation based on profit for the year:		
Current	3,900,000	2,500,000
Deferred	(500,000)	500,000
	3,400,000	3,000,000
Overprovision of current taxation in prior years	(270,000)	-
	3,130,000	3,000,000

The effective tax rate of the Company is lower than the statutory rate mainly due to the utilisation of reinvestment allowances of approximately RM1,950,000. No further unabsorbed reinvestment allowances remain to be carried forward.

Deferred taxation provided for is analysed as follows:-

Timing difference between depreciation and corresponding capital allowances on property, plant and equipment	16,800,000	17,370,000
Provision for doubtful debts	(5,840,000)	(4,220,000)
Other timing differences	(674,154)	(1,078,439)
	10,285,846	12,071,561
At tax effect of 28%	2,880,037	3,380,037

As at 31 December 2001, the Company had further potential deferred tax liabilities of approximately RM975,000 not accounted for in the financial statements as the Company expects the related extent of timing differences to continue in the foreseeable future.

6. DIVIDENDS

The proposed dividends in respect of financial year ended 31 December 2001 amounting to RM3,680,000 will be subject to shareholders' approval at the upcoming annual general meeting, and are analysed as follows:

Proposed final dividend		
- 5 sen tax exempt based on 16.0 million ordinary shares of RM1.00 each (2000 : 5 sen)	800,000	800,000
- 25 sen based on 16.0 million ordinary shares of RM1.00 each (2000 : 25 sen) less income tax of 28%	2,880,000	2,880,000
	3,680,000	3,680,000

If as expected, the proposed bonus issue of three new ordinary shares for every one existing ordinary share held of 48.0 million shares (refer Note 21) is allotted and listed on the KLSE before the final dividend entitlement date, then the first and final ordinary dividend payment shall be 6.25 sen less 28% income tax and a tax exempt dividend of 1.25 sen per RM1.00 share based on 64.0 million ordinary shares of RM1.00 each in issue at that time.

7. EARNINGS PER SHARE

The basic earnings per RM1.00 ordinary share are based on the profit after tax attributable to ordinary shareholders, of RM12,004,067 (2000 : RM14,870,959), and on 16.0 million ordinary shares in issue during the year.

The proforma earnings per share are based on the adjusted number of ordinary shares assumed to be in issue had the bonus issue approved after the financial year end been effective on the first day of the financial year.

Proforma earnings per share has therefore been calculated by dividing the profit after tax attributable to ordinary shareholders, of RM12,004,067 (2000: RM14,870,959) by the adjusted number of 64.0 million ordinary shares.

8. PROPERTY, PLANT AND EQUIPMENT

	Long leasehold land		Buildings	Plant & Equipment	Capital Work-in-Progress	Total	
	At Valuation	At Cost				2001	2000
	RM	RM	RM	RM	RM	RM	RM
COST/VALUATION							
At 1 January	534,480	5,104,114	27,539,143	75,790,837	42,975	109,011,549	104,482,146
Additions	–	–	705,268	4,699,933	5,432,299	10,837,500	8,439,802
Disposals/ write off	–	–	–	(3,487,932)	–	(3,487,932)	(3,910,399)
At 31 December	534,480	5,104,114	28,244,411	77,002,838	5,475,274	116,361,117	109,011,549
ACCUMULATED DEPRECIATION							
At 1 January	159,065	1,103,105	7,449,193	40,420,209	–	49,131,572	45,839,420
Charge for the year	6,360	68,139	513,461	7,053,508	–	7,659,468	7,201,034
Disposals/ write off	–	–	–	(3,300,545)	–	(3,300,545)	(3,908,882)
At 31 December	165,425	1,171,244	7,980,654	44,173,172	–	53,490,495	49,131,572
NET BOOK VALUE							
At 31 December 2001	369,055	3,932,870	20,263,757	32,829,666	5,475,274	62,870,622	–
At 31 December 2000	375,415	4,001,009	20,089,950	35,370,628	42,975	–	59,879,977

Certain long leasehold land is stated based on an external valuation undertaken in 1968 at market value. As allowed by the transitional provisions adopted by the Malaysian Accounting Standards Board, of International Accounting Standard 16 (Revised), Property, Plant and Equipment, this property has continued to be stated on the basis of its 1968 valuation.

Plant and equipment comprises plant, machinery, motor vehicles, furniture and equipment.

The cost of long leasehold land is not disclosed due to the absence of historical records.

9. INVENTORIES

	2001 RM	2000 RM
Finished goods	9,426,172	17,929,652
Raw materials	36,373,299	48,137,348
Packing materials	5,429,481	5,727,655
Engineering stocks	1,348,279	1,535,025
	<u>52,577,231</u>	<u>73,329,680</u>
Less : General provision for inventory obsolescence	(520,000)	(520,970)
	<u>52,057,231</u>	<u>72,808,710</u>

Other than the general provision above, the gross inventories are entirely stated at cost and have not been subject to any provision or write-down.

10. TRADE DEBTORS

Balance outstanding	53,906,004	60,210,978
Allowance for doubtful debts	(5,569,024)	(5,958,729)
	<u>48,336,980</u>	<u>54,252,249</u>

11. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

Total amount outstanding	8,427,535	3,382,343
Allowance for doubtful debts	(2,200,000)	-
	<u>6,227,535</u>	<u>3,382,343</u>

12. HOLDING AND RELATED COMPANIES

The holding company is FRINT BEHEER IV BV and the ultimate holding company is FRIESLAND Coberco Dairy Foods Holding NV, both of which are incorporated in Holland.

Related companies in these financial statements refer to companies within the FRIESLAND Coberco Dairy Foods Holding NV group of companies.

The amounts due to/from the holding and related companies arose from trade transactions, are unsecured, interest-free, and have no fixed terms of repayment.

13. CASH AND CASH EQUIVALENTS

	2001	2000
	RM	RM
Cash and bank balances	513,044	5,416
Deposits with financial institutions	10,600,000	5,200,000
Bank overdraft	-	(932,884)
	11,113,044	4,272,532

The bank overdraft is unsecured and is subject to interest at rates between 0.5% and 1.0% above the lending banks' base lending rates.

14. SHARE CAPITAL

Authorised:		
25,000,000 ordinary shares of RM1.00 each	25,000,000	25,000,000
Issued and fully paid:		
16,000,000 ordinary shares of RM1.00 each	16,000,000	16,000,000

Note 21 sets out information on the increase in share capital subsequent to the balance sheet date.

15. RETAINED PROFIT

Subject to the agreement of the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967, and tax exempt income under Sections 12, 35 & 37 of the Income Tax (Amendment) Act, 1999, to frank the payment of dividends out of all its retained profit at 31 December 2001, without having to incur additional tax liability.

16. RETIREMENT BENEFITS

At 1 January	555,098	615,011
Net payments during the year	(531,013)	(59,913)
At 31 December	24,085	555,098

17. CAPITAL COMMITMENTS

	2001 RM	2000 RM
Authorised capital expenditure not provided for in the financial statements:		
- contracted	5,250,000	-
- not contracted	8,550,000	8,900,000

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

During the year, the Company undertook, in the normal course of business, the following related party transactions, at terms mutually agreed between the parties.

(i) Transactions with related companies in which the ultimate holding company has significant interest:

Sales to:		
Friesland (Singapore) Pte. Ltd.	5,991,269	4,356,890
Friesland Foods Ltd. Hong Kong	6,473,039	3,896,875
Purchases from:		
Friesland Coberco Dairy Foods BV	34,040,460	18,344,420
Royalties and technical assistance fees paid to:		
Friesland Brands BV	2,600,716	2,817,348
Management fee payable to:		
Friesland International BV	30,000	30,000

(ii) Transactions with a company in which there is common directorship and where the director, Tan Sri Kamarul Ariffin bin Mohd. Yassin has an equity interest in either party:

Procurement of advertising services rendered by:		
Utusan Media Sales Sdn. Bhd.	205,220	83,931

19. EMPLOYEE INFORMATION

	2001 RM	2000 RM
Employees costs	<u>25,689,709</u>	<u>23,590,797</u>

The number of employees of the Company at the end of the year was 691 (2000 : 678)

20. SEGMENT INFORMATION

No segment information is provided as the Company operates principally in Malaysia and in one major business segment.

21. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

At an extraordinary general meeting held on 25 January 2002:-

- (i) the shareholders approved the increase of the authorised share capital from RM25.0 million to RM100.0 million by the creation of an additional 75.0 million new ordinary shares of RM1.00 each; and
- (ii) the shareholders approved a bonus issue of 48.0 million new ordinary shares on the basis of three new ordinary shares of RM1.00 each for every existing ordinary share of RM1.00 in issue, by the capitalisation of RM11.2 million from the share premium account and RM36.8 million from the retained earnings of the Company. The bonus issue will result in the issue of 48.0 million new ordinary shares of RM1.00 each credited as fully paid at par, thereby increasing the issued and fully paid share capital of the Company to RM64.0 million.

22. COMPARATIVES

Comparative figures have, where necessary, been reclassified to conform with current year's presentation.

The comparative figure for amount due to the holding company and amount due from related companies disclosed as a net balance previously has been changed to disclose separately the respective amounts to and from related companies on the face of the balance sheet.

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act 1965

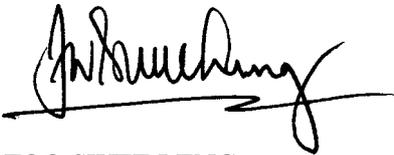
We, IAN MARTIN GEARING and FOO SWEE LENG, being two of the Directors of DUTCH LADY MILK INDUSTRIES BERHAD, state that in the opinion of the Directors, the financial statements set out on pages 19 to 31 are drawn up in accordance with approved accounting standards in Malaysia so as to give a true and fair view of:-

- (i) the financial position of the Company as at 31 December 2001 and of the results of the business of the Company for the year ended on that date; and
- (ii) the cash flows of the Company for the year ended 31 December 2001.

On behalf of the Board,



IAN MARTIN GEARING
Director



FOO SWEE LENG
Director

22 February 2002

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act 1965

I, HUANG SHI CHIN, the person primarily responsible for the financial management of DUTCH LADY MILK INDUSTRIES BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 19 to 31 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Acts 1960.

Subscribed and solemnly declared by
the abovenamed HUANG SHI CHIN
at Petaling Jaya on 22 February 2002



HUANG SHI CHIN

Before me,



E.RADAKRISHNAN, AMN,PPN,PK,PPM,PPA,PKB,PJP (Sel).
Commissioner for Oaths (No. 008)
Petaling Jaya

AUDITORS' REPORT

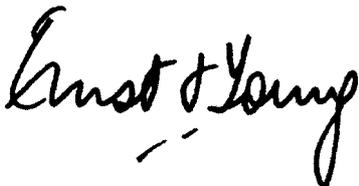
to the members of Dutch Lady Milk Industries Berhad
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 19 to 31. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Acts 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the financial position of the Company as at 31 December 2001 and of the results and the cash flows of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Acts 1965 to be dealt with in the financial statements of the Company.
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



ERNST & YOUNG AF: 0039
Chartered Accountants



SUKANTA KUMAR DUTT 1556/08/02(J)
Partner

Kuala Lumpur, Malaysia
22 February 2002

Financial Highlights

		2001	2000	1999	1998	1997
Revenue	RM'000	329,045	323,304	318,294	286,073	278,235
Profit before tax	RM'000	15,134	17,871	14,160	1,795	10,576
Profit after tax	RM'000	12,004	14,871	13,660	1,331	7,932
Net dividend paid & proposed	RM'000	3,680	3,680	2,880	–	2,880
Issued & fully paid capital	RM'000	16,000	16,000	16,000	16,000	16,000
Shareholders' funds	RM'000	126,423	118,099	106,908	96,128	94,798
Total assets	RM'000	184,311	197,224	179,563	168,178	167,026
Net tangible asset backing per share	RM'000	7.90	7.38	6.68	6.01	5.92
Earnings per share (net)	sen	75	93	85	8	50



Other Information

Analysis of Shareholdings As at 20 March 2002

Class of Shares : Ordinary shares of RM1.00 each

Voting Rights

- On show of hands : 1 vote
- On a poll : 1 vote for each share held

Distribution Schedule of Shareholders

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
1 to 999 shares	83	4.52	20,301	0.13
1000 to 10,000 shares	1,715	93.41	2,834,047	17.71
10,001 to 100,000 shares	34	1.85	877,501	5.48
100,001 to 799,999 shares	2	0.11	247,451	1.55
800,000 and above	2	0.11	12,020,700	75.13
	1,836	100.00	16,000,000	100.00

Statement of Shareholdings

30 Largest Shareholders

	No. of Shares	% of Holdings
1. Frint Beheer IV BV*	8,018,700	50.12
2. Permodalan Nasional Berhad*	4,002,000	25.01
3. RHB Nominees (Asing) Sdn Bhd Rabobank Nominees (S) Pte Ltd for Cooperatieve Centrale Raiffeisen-Boerenleen Bank B.A	135,000	0.84
4. Foo Loke Weng	112,451	0.70
5. Yong Siew Lee	66,000	0.41
6. Kumpulan Wang Simpanan Guru-Guru	55,000	0.34
7. Yeo Khee Bee	52,000	0.33
8. Menteri Kewangan Malaysia Section 29 (SICDA)	48,200	0.30
9. Quek Guat Kwee	46,000	0.29
10. Ng Lam Shen	40,000	0.25
11. Universiti Malaya	36,000	0.23
12. Employees Provident Fund Board	35,000	0.22
13. Foo Mee Lee	33,101	0.21
14. Wong So Haur	33,000	0.21
15. Wong So-Ch'i	33,000	0.21
16. Tong Yoke Kim Sdn Bhd	30,000	0.19
17. Goh Hian Tim	30,000	0.19
18. Lee Sim Kuen	30,000	0.19

19. Lim Teh Realty Sdn Bhd	30,000	0.19
20. Linda Foong Swee Yin	20,000	0.13
21. Lim Pin Kong	20,000	0.13
22. HSBC Nominees (Asing) Sdn Bhd Pictet and Cie for Ace Fund Sicav (Emerging Market)	20,000	0.13
23. Neoh Soon Leong	18,000	0.11
24. See Cheng Siang	18,000	0.11
25. Yeo Khee Huat	17,000	0.11
26. Sak Moy @ Sak Swee Len	15,000	0.09
27. HSBC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Hiong Eng	15,000	0.09
28. Citicorp Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Teh Kweng Seong	14,000	0.09
29. Quah Say Beng	14,000	0.09
30. Theo Chin Lian	14,000	0.09
	13,050,452	81.60

*Registered in the Company's Register as Substantial Shareholders

Directors' Interests As at 20 March 2002

Subsequent to the financial year end, there is no change as at 20 March 2002 to the Directors' interest in the ordinary shares of the Company appearing in the Directors' report on Pages 16 to 18 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965.



Other Information

Particulars of Properties As at 31 December 2001

Locations of Property	13 & 15, Jalan Semangat, Petaling Jaya	Lot 79, Jalan 13/6, Petaling Jaya
Brief Description	Factory buildings and office complex	Warehouse
Approximate Land Area (sq. ft.)	358,482	74,135
Tenure	Leasehold land expiring in the year 2059	Leasehold land expiring in the year 2059
Age of property	Between 16 years to 38 years	14 years
Net Book Value (RM'mln)	21.5	3.0

Material contract

To ensure the Company's continuing relationship with the Friesland Coberco Dairy Foods ("FCDF") Group, which is vital to the Company's continued successful operations and its obligation for the use of FCDF's brand of products, a Technical Assistance and Royalty Agreement dated 24 December 2001 was entered into between the Company and Friesland Brands BV, a wholly owned subsidiary of FCDF, for the grant of a licence for the exclusive use in Malaysia of propriety intellectual property, including trademarks and know-how, and the provision of technical assistance. Consideration is by way of monthly Royalties and Technical fees at a rate of 2% of net sales.



Proxy Form



DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)

Goodness For Life

(Incorporated in Malaysia under the then Companies Ordinances, 1940-1946)

I/We (NRIC No.)
of
being a member/members of **DUTCH LADY MILK INDUSTRIES BERHAD** (“the Company”), do hereby
appoint (NRIC No.)
of
or failing him/her (NRIC)
of
as my/our proxy/proxies to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Hotel Armada, Lorong Utara C, Section 52, Petaling Jaya, on Thursday, 23 May 2002 at 10.00 am, in respect of my/our shareholding in the manner indicated below:-

Ordinary Business - Ordinary Resolutions	*FOR	*AGAINST
1. To receive and adopt the Audited Financial Statements, and Directors’ and Auditors’ Reports thereon.		
2. To declare a first and final dividend of 6.25 sen per share, less income tax, and a 1.25 sen tax exempt dividend, per RM1.00 ordinary share based on 64.0 million ordinary shares of RM1.00 each in respect of the year ended 31 December 2001		
3. To approve the Directors’ fees		
4. To re-elect Mr. Ian Martin Gearing as Director pursuant to Article 94 of the Company’s Articles of Association		
To re-elect the following Directors pursuant to Article 97 of the Company’s Articles of Association:-		
5. i. Mr. Boey Tak Kong		
6. ii. Mr. James Smith Gray		
7. iii. Mr. Freek Rijna		
8. To re-appoint Messrs Ernst & Young as Auditors and to authorise the Directors to fix their remuneration		
Special Business - Ordinary Resolution		
9. To approve the Proposed Renewal of Shareholders’ Mandate for Recurrent Related Party Transactions		

* Please indicate with an “X” how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/ her discretion.

No. of Shares held

Signed this day of2002

Signature(s) of Shareholder/attorney (if Shareholder is a corporation, this part should be executed under seal)

Notes:-

A Member entitled to attend and vote at a meeting of the Company is entitled to appoint a proxy/proxies to attend and vote instead of him. A proxy need not be a member of the Company and need not be an advocate, an approved company auditor or a person appointed by the Registrar of Companies.

Save for an Authorised Nominee as defined under the Securities Industry (Central Depositories) Act 1991 which may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member shall be entitled to appoint not more than two proxies to attend and vote at the same meeting provided that where a Member appoints two proxies, the appointment shall be invalid unless such Member specifies the proportion of his holdings to be represented by each proxy.

This form must be signed by the Member or his attorney duly authorised in writing, or if the appointor is a corporation, this form must be executed under its common seal or under the hand of its officer or attorney duly authorised.

To be valid, this form, duly completed (and, if applicable, the power of attorney or other authority under which it is signed or notarially certified copy of that power of authority) must be deposited at the Office not less than 48 hours before the time for holding the meeting or any adjournment thereof.