

Dutch Lady Milk Industries Berhad (5063-V)

(Incorporated in Malaysia)

Goodness for Life



AFFILIATE OF FRIESLAND COBERCO DAIRY FOODS, HOLLAND

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NOTICE OF Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fortieth Annual General Meeting of the Company will be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan, on Wednesday, 30 April 2003 at 10.00 a.m. for the purpose of transacting the following business:

AGENDA

AS ORDINARY BUSINESS

Ordinary Resolution 1

To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2002, together with the Reports of the Directors and Auditors thereon.

Ordinary Resolution 2

To approve the declaration of a first and final dividend of gross 6.25 sen, less income tax, and a 3.75 sen tax exempt dividend, per RM1.00 ordinary share in respect of the financial year ended 31 December 2002.

Ordinary Resolution 3

To approve the payment of Directors' fees for the financial year ended 31 December 2002.

Ordinary Resolutions 4 & 5

To re-elect the following Directors who retire by rotation pursuant to Article 94 of the Company's Articles of Association as Directors of the Company:

- i) Tan Sri Kamarul Ariffin bin Mohd. Yassin
- ii) Mr. Foo Swee Leng

Ordinary Resolution 6

To re-elect Mr. Cornelis H.M. Ruijgrok who retires pursuant to Article 97 of the Company's Articles of Association as a Director of the Company.

Ordinary Resolution 7

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

Ordinary Resolution 8

"That approval be and is hereby given to the Company to enter into and to give effect to the Recurrent Related Party Transactions of a Revenue or Trading Nature as stated in Section 2.2.2 with the specific classes of Related Parties as stated in Section 2.2.1 of the Circular to Shareholders dated 8 April 2003 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 Shareholders' Mandate 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; or
 - (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 and things as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate."

Notice of Dividend Entitlement

NOTICE IS ALSO HEREBY GIVEN that the first and final dividend of 6.25 sen per share, less income tax, and the tax exempt dividend of 3.75 sen per share in respect of the financial year ended 31 December 2002, if approved by the Shareholders, will be paid on 4 June 2003 to Shareholders whose names appear in the Register of Members and Record of Depositors at the close of business on 7 May 2003.

A Depositor shall qualify for entitlement only in respect of:

- a. Shares transferred to the depositor's securities account before 4.00 p.m. on 7 May 2003 in respect of ordinary transfers; and
- b. Shares bought on Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of the Kuala Lumpur Stock Exchange.

By Order of the Board,

HUANG SHI CHIN (MIA 3891)
Company Secretary

Petaling Jaya
8 April 2003

Notes:

A Member entitled to attend and vote at the Annual General 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 Section 149(1)(b) of the Companies Act, 1965 shall not apply.

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.

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

To be valid, the instrument appointing a proxy, 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 8 April 2003.

Statement Accompanying Notice of Fortieth Annual General Meeting**1. Directors who are standing for re-election at the Fortieth Annual General Meeting of the Company**

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

- i) Tan Sri Kamarul Ariffin bin Mohd. Yassin
- ii) Mr. Foo Swee Leng

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

Mr. Cornelis H. M. Ruijgrok

2. Details of attendance of Directors at Board meetings

There were five Board meetings held during the financial year ended 31 December 2002. 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 the Fortieth Annual General Meeting

Place : Hotel Armada
Lorong Utara C, Section 52
46200 Petaling Jaya
Selangor Darul Ehsan

Date & Time : 30 April 2003, Wednesday at 10.00 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

Cornelis H. M. Ruijgrok
- 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
Cornelis H. M. Ruijgrok

Secretary

Huang Shi Chin

Remuneration Committee

Chairman
(Vacant)

Members

Foo Swee Leng
Cornelis H. M. Ruijgrok

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
Level 23A
Menara Milenium
Jalan Damanlela
50490 Kuala Lumpur

Principal Bankers

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

Public Bank Berhad
12, Jalan 14/14
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

Main Board of the
Kuala Lumpur
Stock Exchange



CHAIRMAN'S

Report



On behalf of the Board of Directors, I have pleasure in presenting the Company's Fortieth Annual Report and Audited Financial Statements for the year ended 31 December 2002.

It has been another busy year for the Company. The bonus issue, increasing the Company's paid-up share capital to RM64 million, was successfully effected in March 2002.

In addition, the Company also relaunched its Growing-up Milk with the triple care formulation, introduced into the market a Joy premium fruit concentrate, block bottom pouch for milk powder, sterilized milk in 200 ml bottles and Frisogrow, a premium brand Growing-up Milk.

Whilst the economy showed some improvement in 2002, there was still cautiousness in consumer demand and severe price discounting by competitors was the order of the day.

The Company was successful in turning around its condensed milk business. However, the milk powder category continued to be most competitive whilst the liquid milk category managed to hold its own, with strong growth recorded in the chilled segment.

As a result, the Company's turnover grew to RM357.2 million from RM329.0 million in the previous year.

With the more favourable world dairy raw material prices and good cost management, the Company achieved an operating profit of RM20.0 million in 2002 compared to RM15.1 million in 2001.

Prospects for 2003 remain challenging. World dairy raw material prices are expected to increase and the Company will continue to invest to protect and expand its market share.

The financial crisis came upon us in 1997. Dividends had to be moderated since then. However your Directors feel that it is appropriate to revert to the pre-crisis levels of dividends, amounting to a total net dividend of RM2,880,000 and RM2,400,000 tax-exempt dividend in respect of the year ended 31 December 2002. The Directors would like to thank the Shareholders for their patience and understanding through this difficult period for the Company.

This year saw a change the stewardship of the Company. Mr. Ian Gearing, who was at the helm for the last five years, moved to Thailand to take up a similar position there. His place is ably filled by Mr. Cornelis H. M. Ruijgrok, who has worked in this region for many years. The Board would like to bid a fond farewell to Mr. Gearing and to extend a warm welcome to Mr. Ruijgrok.

The Board had earlier announced the resignation of Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee, who had intimated his desire to pursue his other interests. The Board would like to express its gratitude to Tan Sri for his wisdom and guidance during his tenure with the Company.

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 2002 and to wish them even greater success in the current year.

TAN SRI KAMARUL ARIFFIN
BIN MOHD. YASSIN
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 the 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.

However, on 1 December 2002, Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee resigned from the Board to pursue his other interests. The Board has yet to fill the vacancy.

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. Mr. Ian Gearing, who was the Managing Director for the last five years, left the Company on 30 November 2002 to take up a similar position in Thailand. Mr. Cornelis H. M. Ruijgrok replaced him as Managing Director of the Company on 1 December 2002.

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 five 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's 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 provide that the Managing Director is also subject to re-election by rotation once every three years in compliance 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

All the Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) conducted by the Research Institute of Investment Analysis Malaysia (RIIAM); an affiliate company of the 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 an attendance allowance nor directors' fee.

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 2002 is as follows:

Executive Directors	RM406,660
Non-Executive Directors	RM 76,000

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	1	3
RM350,000 to RM400,000	1	—

6 Board Committees

As appropriate, the Board has delegated certain responsibilities to Board Committees that 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 of the Committee until 30 November 2002 were:

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. Cornelis H. M. Ruijgrok replaced Mr. Ian Martin Gearing in the Committee on 1 December 2002, following his appointment as Managing Director of the Company.

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 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 Best Practices of Corporate Governance, the Board established a Nomination Committee on 12 November 2001. The Committee comprises three directors, two of whom are independent. The members of the Committee 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 Best Practices of Corporate Governance, the Board established a Remuneration Committee on 12 November 2001. The Committee comprises three directors, two of whom are non-executive directors. The members of the Committee, until 1 December 2002, were:

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)

On 30 November 2002, Mr. Ian Gearing resigned from the Board and his place on the Committee was taken over by Mr. Cornelis H. M. Ruijgrok on 1 December 2002. Tan Sri Dato' Dr. Ahmad Mustaffa bin Hj. Babjee resigned from the Board on 1 December 2002 to pursue his other interests. The Board has yet to identify his replacement on the Committee.

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.

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. Cornelis H. M. Ruijgrok and Mr. Foo Swee Leng for and on behalf of the Board and is set out on page 37 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 were engaged on 12 November 2001 to carry out the Company's Internal Audit function effective 1 January 2002.

They report to the Audit Committee. As such, the Company's internal audit function is independent of its activities and is performed with professionalism and impartiality.

During the year, the Internal Auditors had four meetings with the Audit Committee. They reported on the Company's system of internal and operational controls with focus on key areas of business risks.

The Internal Auditors' audit plan, nature and scope of the audit were agreed with the Audit Committee prior to the commencement of their audit. They reported on weaknesses in control procedures and made recommendations on areas for improvement. They also reviewed the extent to which their recommendations have been implemented by the Company.

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 by 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 controls and compliance to the attention of Management, the Audit Committee and the Board.

8 Relations with Shareholders and Investors

The Company's 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 the Company's Audited Financial Statements and Directors' Report for the financial year. 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 major product launches where clarifications are given on the products and the business in general.

Announcements are made on a timely basis to the Kuala Lumpur Stock Exchange in accordance with the Listing Requirements.

9 Compliance with the Code of Corporate Governance

The Company has taken necessary steps to comply with the Principles and Best Practices of the Code of Corporate Governance.

The Company will continually review its corporate governance principles and practices in its effort to achieve a higher standard of governance in the Company.

DIRECTORS'

Profile

TAN SRI KAMARUL ARIFFIN BIN MOHD YASSIN

Aged 69. 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, Chairman of Dewan Bahasa dan Pustaka, President of the Malaysian Film Producers Association, Vice-Chairman of the Asian Media Information & Communication Centre and Committee Member of the Malaysian Communication & Multimedia Commission. 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 five Board meetings held during the financial year.

MR. CORNELIS H. M. RUIJGROK

Aged 50. Dutch. Executive Director. Managing Director of the Company since 1 December 2002. 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 Marketing from the Netherlands Institute of Marketing. 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. Did not attend any Board Meetings held during the financial year as was appointed Director on 1 December 2002.

MR FOO SWEE LENG

Aged 56. 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 five Board Meetings held during the financial year.

MR. BOEY TAK KONG

Aged 49. 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. Attended five Board Meetings held during the financial year.

MR. FREEK RIJNA

Aged 47. 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. Attended three Board Meetings held during the financial year.

MR. JAMES SMITH GRAY

Aged 57. 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 Friesche Vlag Indonesia PT, a subsidiary of Friesland Coberco Dairy Foods Holding NV. Not a director of any other public listed company. Holds a degree in Business Administration 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. Attended three 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 Auditors and External Auditors 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 review the draft Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature before submission to the Board of Directors
- (k) to consider the level of assistance given by the employees of the Company to the External and Internal Auditors, and
- (l) 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 Auditors 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 members of the Committee from 1 January 2002 to 30 November 2002 were:-

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.

The Committee met four times during the financial year ended 31 December 2002. The meeting attendance record of the Committee members is as follows:-

Name of Member	Designation	No. of Meetings attended
Tan Sri Kamarul Ariffin bin Mohd. Yassin	Chairman	4 out of 4
Mr. Boey Tak Kong	Committee member	4 out of 4
Mr. Ian Martin Gearing	Committee member	4 out of 4

On 1 December 2002, Mr. Cornelis H. M. Ruijgrok replaced Mr. Ian Martin Gearing in the Committee upon the latter's resignation from the Company. The membership of the Committee since then is 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. Cornelis H. M. Ruijgrok (Executive Director)

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 are empowered to audit the Company's business units, review the units' compliance with internal control procedures, highlight areas of 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 the financial year ended 31 December 2002 included the review of:

- (i) the audit plan, nature and scope of the audit with the Internal and External Auditors;
- (ii) the findings and recommendations by the Internal and External Auditors on systems and control weaknesses, and ensured that corrective actions were taken 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 recommended 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 of the External Auditors on the financial statements and recommended the same to the Board for approval;
- (vi) the related party transactions and any conflicts of interest situations during the year, and
- (vii) the Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and recommended the same to the Board for approval.

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 2002.

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'000
Profit after taxation	<u>15,159</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Statement of Changes in Equity.

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.

ISSUE OF SHARES

During the financial year, the Company increased its:

- (i) authorised share capital from RM25 million to RM100 million by the creation of an additional 75 million new ordinary shares of RM1 each; and
- (ii) issued and paid-up share capital by way of a bonus issue of 48 million new ordinary shares on the basis of three new ordinary shares of RM1 each for every existing ordinary share of RM1 in issue, by the capitalisation of RM11.2 million from the share premium account and RM36.8 million from the retained profit of the Company. The bonus issue resulted in the issue of 48 million new ordinary shares of RM1 each credited as fully paid at par, thereby increasing the issued and fully paid share capital of the Company to RM64 million.

DIVIDENDS

Dividends paid by the Company since 31 December 2001 were as follows:

In respect of the financial year ended 31 December 2001 as reported in the directors' report of that year, adjusted for the bonus issue completed prior to payment.

	RM'000
Final tax exempt dividend of 1.25%, paid in June 2002	800
Final dividend of 6.25%, less 28% income tax, paid in June 2002	<u>2,880</u>
	<u>3,680</u>

These dividends were paid on the shares in issue subsequent the bonus issue of shares referred to above. Upon the change in accounting policy that has been effected through a prior year adjustment as disclosed in Note 17, the above dividends have been brought to account in the financial statements for the year ended 31 December 2002.

At the forthcoming Annual General Meeting, final dividends in respect of the current financial year ended 31 December 2002, of 6.25% less 28% income tax and 3.75% tax exempt, on the enlarged share capital comprising 64 million ordinary shares, amounting to a total of RM5,280,000 (8.25 sen net per share) will be proposed for shareholders' approval. The accompanying financial statements do not reflect these proposed dividends. Such dividends, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2003.

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

Foo Swee Leng

Boey Tak Kong

James Smith Gray

Freek Rijna

Cornelis Hubertus Maria Ruijgrok

(Appointed on 1.12.02)

Ian Martin Gearing (Resigned on 30.11.02)

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

(Resigned on 1.12.02)

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was 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.

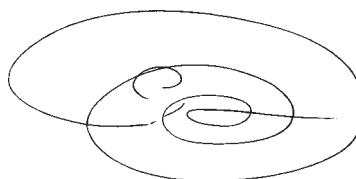
(e) As at the date of this report, there does not exist:-

- (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.

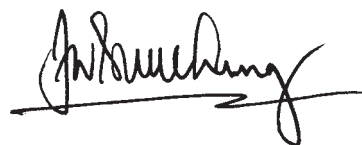
(f) In the opinion of the Directors:

- (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;
- (ii) no item, transaction or even 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,

A stylized, circular signature in black ink, consisting of several overlapping loops.

CORNELIS H. M. RUIJGROK
Director

A cursive signature in black ink, starting with a large 'F' and ending with a long horizontal stroke.

FOO SWEE LENG
Director

23 January 2003

AUDITORS

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

INCOME STATEMENT

for the year ended 31 December 2002

	Note	2002 RM'000	2001 RM'000
REVENUE	3	357,239	329,045
COST OF SALES		(236,218)	(230,448)
GROSS PROFIT		121,021	98,597
OTHER OPERATING INCOME		3,945	7,725
DISTRIBUTION COSTS		(73,348)	(62,299)
ADMINISTRATIVE EXPENSES		(9,926)	(8,429)
OTHER OPERATING EXPENSES		(21,548)	(20,433)
PROFIT FROM OPERATIONS		20,144	15,151
FINANCE COSTS		(78)	(17)
PROFIT BEFORE TAXATION	4	20,066	15,134
TAXATION	5	(4,907)	(3,130)
PROFIT AFTER TAXATION		15,159	12,004
EARNINGS PER SHARE			
- Basic earnings per share - adjusted (RM)	7	0.24	0.19

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

BALANCE SHEET

as at 31 December 2002

	Note	2002 RM'000	2001 RM'000
ASSETS EMPLOYED:			
Property, Plant and Equipment	8	65,133	62,871
CURRENT ASSETS			
Inventories	9	42,327	52,057
Trade receivables	10	54,364	48,337
Other receivables, deposits and prepayments	11	5,522	6,228
Amounts due from related companies	12	3,602	3,024
Cash and cash equivalents	13	17,781	11,113
		123,596	120,759
LESS: CURRENT LIABILITIES			
Trade payables		22,705	28,672
Other payables and accruals	14	13,295	14,630
Amount due to related companies	12	6,075	4,220
Taxation		1,692	3,125
		43,767	50,647
NET CURRENT ASSETS		79,829	70,112
		144,962	132,983
FINANCED BY:			
Share Capital	15	64,000	16,000
Share Premium		—	11,200
Retained Profit	16	77,582	102,903
		141,582	130,103
Deferred Taxation	5	3,380	2,880
		144,962	132,983

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2002

	Share capital RM'000	Share premium RM'000	Retained profit RM'000	Total RM'000
At 1 January 2001, as previously stated	16,000	11,200	90,899	118,099
Prior year adjustment (Note 17)	—	—	3,680	3,680
At 1 January 2001, as restated	16,000	11,200	94,579	121,779
Net profit for the year	—	—	12,004	12,004
Dividends (Note 6)	—	—	(3,680)	(3,680)
At 31 December 2001 as previously stated	16,000	11,200	99,223	126,423
Prior year adjustment (Note 17)	—	—	3,680	3,680
At 1 January 2001, as restated	16,000	11,200	102,903	130,103
Bonus issue	48,000	(11,200)	(36,800)	—
Net profit for the year	—	—	15,159	15,159
Dividends (Note 6)	—	—	(3,680)	(3,680)
At 31 December 2002	64,000	—	77,582	141,582

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

CASH FLOW STATEMENT

for the year ended 31 December 2002

	Note	2002 RM'000	2001 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		354,973	339,302
Cash paid to suppliers and employees		(328,830)	(315,591)
Cash generated from operations		26,143	23,711
Income tax paid		(5,840)	(3,026)
Net cash inflow from operating activities		20,303	20,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(10,212)	(10,837)
Proceeds from disposal of property, plant and equipment		232	448
Interest income		103	242
Net cash outflow from investing activities		(9,877)	(10,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(78)	(17)
Dividends paid	6	(3,680)	(3,680)
Net cash outflow from financing activities		(3,758)	(3,697)
Net increase in cash and cash equivalents		6,668	6,841
Cash and cash equivalents brought forward		11,113	4,272
Cash and cash equivalents carried forward	13	17,781	11,113

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

1. GENERAL

The Company is a public limited company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Kuala Lumpur Stock Exchange. The registered office and principal place of business of the Company are located at 13, Jalan Semangat, 46200 Petaling Jaya, Selangor Darul Ehsan.

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 Preparation

The financial statements are prepared under the historical cost convention modified by the revaluation of certain properties and comply with applicable 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 applicable transitional provisions, 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 less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(h).

Leasehold land is amortised on a straight line basis over the periods of the leases, both of which expire in 2059. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:-

Buildings	-	2%
Plant and machinery	-	10% - 15%
Motor vehicles	-	16.7%
Furniture and equipment	-	10% - 25%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net book value is charged or credited to the income statement.

(c) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(d) Retirement Benefits

The provision made reflects the amounts payable to the Employees Provident Fund in respect of eligible employees under their terms of employment with the Company.

(e) Foreign Currencies

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the transactions dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used.

Non-monetary items initially denominated in foreign currencies, which are carried at historical cost, are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when such fair values were determined. The principal exchange rates applied for each unit of foreign currency at balance sheet date, are as follows:-

	<u>31.12.02</u>	<u>31.12.01</u>
Foreign Currency	RM	RM
1 US Dollar	3.8000	3.8000
1 Euro	3.9795	3.3645

(f) Deferred Taxation

The tax expense for the year is based on the profit for the year, as adjusted for tax purposes, together with a charge or credit for deferred taxation. Deferred taxation is provided for by the liability method for all timing differences except where there is reasonable evidence that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are only recognised when there is reasonable expectation of realisation in the near future.

(g) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts. 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.

(h) Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets, other than inventories, assets arising from construction contracts, deferred tax assets and assets arising from employee benefits and financial assets, which are reviewed pursuant to their separate accounting policies as applicable, to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exist, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(i) Financial Instruments

Financial Instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

Trade Payables

Trade payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

Interest Bearing Borrowings

Interest-bearing banks loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Equity Instruments

Ordinary shares are classified as equity.

The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared and approved by the shareholders.

(j) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Sale of Goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

Interest

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

(k) Provisions

Provisions for liabilities 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 of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

3. REVENUE

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

4. PROFIT BEFORE TAXATION

	2002 RM'000	2001 RM'000
This is arrived at after charging/(crediting):-		
Depreciation of property, plant and equipment	7,926	7,659
Rent of buildings	460	381
Hire of equipment	58	69
Auditors' remuneration		
- audit	49	49
- other services	9	20
Directors' remuneration		
- fees	76	40
- other emoluments	283	481
- benefits in kind	123	232
Management fee payable to holding company	54	30
Royalties and technical assistance fee payable to holding company	5,339	2,601
Provision for bad and doubtful debts	1,500	3,055
Provision for doubtful debts written back	—	(1,241)
Inventory written off	572	—
Interest expense	78	17
Interest income	(103)	(242)
Gain on disposal of property, plant and equipment	(208)	(261)

5. TAXATION

Malaysian taxation based on profit for the year:		
Current	4,407	3,900
Deferred	500	(500)
	4,907	3,400
Overprovision of current taxation in prior years	—	(270)
	4,907	3,130

The effective tax rate of the Company is lower than the statutory rate mainly due to the utilisation of reinvestment allowances of approximately RM4,717,000. 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	20,145	16,800
Provision for doubtful debts	(7,179)	(5,840)
Other timing differences	(895)	(674)
	12,071	10,286
At tax effect of 28%	3,380	2,880

As at 31 December 2002, the Company had further potential deferred tax liabilities of approximately RM910,000 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

	2002 RM'000	2001 RM'000
Dividend paid:-		
- 1.25 sen (2001 : 5 sen) tax exempt based on 64.0 million (2001 : 16.0 million) ordinary shares of RM1.00 each	800	800
- 6.25 sen (2001 : 25 sen) based on 64.0 million (2001 : 16.0 million) ordinary shares of RM1.00 each, less income tax of 28%,	2,880	2,880
	<u>3,680</u>	<u>3,680</u>

Upon the change in accounting policy that has been effected through a prior year adjustment as disclosed in Note 17, the above dividends have been brought to account in the financial statements for the year ended 31 December 2002.

These dividends were paid on the shares in issue subsequent to the bonus issue of shares.

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 December 2002, of 6.25% per share, less 28% income tax, and 3.75% tax exempt per share on 64 million ordinary shares, amounting to a total dividend of RM5,280,000 (8.25 sen net per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2003.

7. EARNINGS PER SHARE

Basic earnings per share has been computed to incorporate the effects of the bonus issue referred to in Note 15, adjusted to the beginning of the financial year. The comparative in respect of the year ended 31 December 2001 has also been re-computed to incorporate this adjustment.

Adjusted earnings per share is calculated by dividing the net profit for the year after taxation by the adjusted number of ordinary shares assumed to be in issue had the bonus issue been effective on the first day of 2001.

Net profit for the year	15,195	12,004
Weighted average number of ordinary shares in issue	64,000	64,000
Basic earnings per share (RM)	<u>0.24</u>	<u>0.19*</u>

* : Previously stated as RM0.75

8. PROPERTY, PLANT AND EQUIPMENT

	Long leasehold land At Valuation	At Cost	Buildings	Plant & Equipment	Capital Work-in- Progress	2002 Total 2001	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
COST/VALUATION							
At 1 January	535	5,104	28,244	77,003	5,475	116,361	109,012
Additions	–	–	–	1,181	9,031	10,212	0,837
Disposals/ write off	–	–	–	(1,855)	–	(1,855)	(3,488)
Reclassification	–	–	2,053	7,129	(9,182)	–	–
At 31 December	535	5,104	30,297	83,458	5,324	124,718	116,361
ACCUMULATED DEPRECIATION							
At 1 January	166	1,171	7,980	44,173	–	53,490	49,131
Charge for the year	6	68	596	7,256	–	7,926	7,659
Disposals/ write off	–	–	–	(1,831)	–	(1,831)	(3,300)
At 31 December	172	1,239	8,576	49,598	–	59,585	53,490
NET BOOK VALUE							
At 31 December 2002	363	3,865	21,721	33,860	5,324	65,133	–
At 31 December 2001	369	3,933	20,264	32,830	5,475	–	62,871

Certain long leasehold land is stated based on an external valuation undertaken in 1968 at market value. As allowed by the applicable transitional provisions 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

	2002 RM'000	2001 RM'000
Finished goods	17,612	9,427
Raw materials	19,692	36,373
Packing materials	4,390	5,429
Engineering stocks	894	1,348
	42,588	52,577
Less : General provision for inventory obsolescence	(261)	(520)
	42,327	52,057

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 RECEIVABLES

	2002 RM'000	2001 RM'000
Balance outstanding	59,719	53,906
Allowance for doubtful debts	(5,355)	(5,569)
	54,364	48,337

Allowance for doubtful debts is analysed as follows:

Balance at 1 January	5,569	5,959
Amount subsequently utilised	(514)	(1,245)
	5,055	4,714
Required provision for the year	300	855
Balance at 31 December	5,355	5,569

11. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

Other debtors	8,479	8,098
Allowance for doubtful debts	(3,400)	(2,200)
	5,079	5,898
Deposits	266	228
Prepayments	177	102
	5,522	6,228

Allowance for doubtful debts is analysed as follows:

Balance at 1 January	2,200	–
Required provision for the year	1,200	2,200
Balance at 31 December	3,400	2,200

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, under normal credit terms of repayment.

13. CASH AND CASH EQUIVALENTS

	2002 RM'000	2001 RM'000
Cash and bank balances	1,952	513
Deposits with financial institutions	16,000	10,600
Bank overdraft	(171)	–
	17,781	11,113

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

14. OTHER PAYABLES AND ACCRUALS

Other creditors	2,027	1,272
Accruals	7,382	8,991
Provision for employee cost	149	24
Provision for trade-related expenditure	3,737	4,343
	13,295	14,630
Provision for employee costs is analysed as follows:		
At 1 January	24	555
Additional provision during the year	152	274
	176	829
Payment during the year	(27)	(805)
At 31 December	149	24

Provision for employee costs reflects provisions made for additional contributions to the statutory Employee's Provident Fund that would vest upon unionised staff having completed five years of service. The provisions have been made on the assumption that all relevant staff will complete their five year term and that therefore their benefits will vest in entirety. No actuarial valuation has been performed in view of the relative amounts involved.

Provision for trade-related expenditure is analysed as follows:

Balance at 1 January	4,343	7,070
Amount subsequently utilised	(4,290)	(6,825)
	53	245
Over provision	3,684	4,098
Charge for required provision at 31 December	3,737	4,343

15. SHARE CAPITAL

	2002 RM'000	2001 RM'000
Authorised:-		
Ordinary shares of RM1 each		
At beginning of year	25,000	25,000
Increased during the year	75,000	—
	<hr/> 100,000 <hr/>	<hr/> 25,000 <hr/>
At end of year		
Issued and fully paid:-		
Ordinary shares of RM1 each		
At beginning of year	16,000	16,000
Issued during the year	48,000	—
	<hr/> 64,000 <hr/>	<hr/> 16,000 <hr/>
At end of year		

During the financial year, the Company increased its:

- (i) authorised share capital from RM 25 million to RM 100 million by the creation of an additional 75 million new ordinary shares of RM1 each; and
- (ii) issued and paid-up share capital by way of a bonus issue of 48 million new ordinary shares on the basis of three new ordinary shares of RM1 each for every existing ordinary share of RM1 in issue, by the capitalisation of RM11.2 million from the share premium account and RM36.8 million from the retained profit of the Company. The bonus issue resulted in the issue of 48 million new ordinary shares of RM1 each credited as fully paid at par, thereby increasing the issued and fully paid share capital of the Company to RM 64 million.

16. 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 2002, without having to incur additional tax liability.

17. PRIOR YEAR ADJUSTMENT

In compliance with MASB 19 - Events after the Balance Sheet Date, the Company discontinued the recognition of dividends declared or proposed after the balance sheet date, as a liability at balance sheet date. This change in accounting policy has been applied retrospectively with the resulting adjustment reported as an adjustment to opening balance of retained profit. Comparative information has been restated accordingly. This change in accounting policy has no effect on the income statement of current and previous financial years. The effects on opening Retained Profit is as disclosed in the Statement of Changes in Equity. The corresponding amounts that had previously been shown as a current liability have been extinguished in the balance sheet.

18. CAPITAL COMMITMENTS

	2002 RM'000	2001 RM'000
Authorised capital expenditure not provided for in the financial statements:		
- contracted	2,950	5,250
- not contracted	1,757	8,550

19. 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.

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

Sales to:

Friesland (Singapore) Pte. Ltd.	6,757	5,991
Friesland Foods Ltd. Hong Kong	9,430	6,473

Purchases from:

Friesland Coberco Dairy Foods BV	60,685	34,040
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Royalties and technical assistance fees paid to:

Friesland Brands BV	5,339	2,601
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Management fee payable to:

Frint Beheer IV BV	54	30
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20. EMPLOYEE INFORMATION

Employees costs	26,810	25,690
-----------------	---------------	--------

The number of employees of the Company at the end of the year was 650 (2001 : 691)

21. SEGMENT INFORMATION

The primary reporting segment information is in respect of the business segment as the Company's risk and rates of return are affected predominantly by differences in the products it produces.

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

22. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Company operates within clearly defined guidelines and the Company's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Company's primary interest rate risk relates to interest on short-term bank borrowings, as the Company had no long-term loans as at 31 December 2002. Investment in financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in short-term deposits.

(c) Foreign Exchange Risk

The Company procures mainly raw materials and, where required, plant and equipment, internationally and is exposed to various currencies, mainly United States Dollar, Euro, and Singapore Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases give rise to foreign exchange exposures. Foreign exchange exposures in transactional currencies are kept to an acceptable level.

(d) Liquidity Risk

The Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Company strives to maintain available banking facilities of a reasonable level to its overall working capital liabilities. The Company raises committed funding from financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

(e) Credit Risk

Credit risks, or the risk of counterparties defaulting, is managed by the application of credit approvals, limits and monitoring procedures. Trade receivables are monitored on an ongoing basis via the Company's management reporting procedures. The Company does not have any major concentration of credit risk related to any financial instruments.

(f) Fair Values

The carrying amounts and estimated fair values of financial instruments of the Company as at 31 December 2002 are as follows:-

	Carrying Amount RM'000	Fair Value RM'000
ASSETS		
Trade receivables	54,364	54,364
Other receivables (excluding deposits and prepayments)	8,479	8,479
Amounts due from related companies	3,602	3,602
LIABILITIES		
Trade payables	22,705	22,705
Other creditors and accruals	13,295	13,295
Amounts due from related companies	6,075	6,075

The following methods and assumptions are used to estimate the fair values of the respective classes of financial instruments :-

Trade and other receivables and payables

The carrying amounts of trade receivables and payables are subject to normal trade credit terms which are short term in nature and thus approximate their fair values. The carrying amounts of other receivables and payables are reasonable estimates of fair values because of their short maturities.

Amounts due to/from related companies

The carrying amounts of the amounts due to/from related companies approximate their fair values as these amounts have normal credit terms of repayment.

Provision for liabilities

Provision for employee benefits is deemed to approximate its fair value as this provision is made in respect of employees' entitlements.

For the purposes of the above estimates of fair values of financial instruments, 'short maturity' period is defined as a period within 1 year.

(g) Currency Exposure

The net unhedged financial assets and financial liabilities of the Company as at 31 December 2002 that are not denominated in their functional currencies are as follows:-

	United States Dollar RM'000	Euro RM'000	Total RM'000
Trade payables			
Ringgit Malaysia	10,653	3,619	14,272

As at 31 December 2002, the Company had not entered into any forward foreign exchange contracts.

23. CONTINGENT LIABILITY

On 22th February 2002, Susu Lembu Asli Marketing Sdn Bhd ("SLAM") filed a suit against the Company. Upon the Company's application, the High Court at Kuala Lumpur had ordered a stay of proceedings in the suit and that SLAM's claims be referred to arbitration. The Company is rigorously defending SLAM's claims. The outcome and compensation of this suit, if any, are currently indeterminable.

24. COMPARATIVES

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

The comparative figure for the provision for employee costs which were previously long term, has been included within other payables and accruals in the current year.

Comparatives are not disclosed for certain information relating to financial instruments as permitted by MASB 24 - Financial Instruments: Disclosure and Presentation, upon first application.

As indicated in Note 17, comparative figures have been restated due to the adoption of MASB 19 - Events after the Balance Sheet Date. In this respect, retained profit as at 1 January 2001 have increased by RM3,680,000 with a corresponding decrease in proposed dividends previously classified as current liabilities.

Further, as disclosed in Note 7, the comparative earnings per share amount has been adjusted for the bonus issue completed during the year.

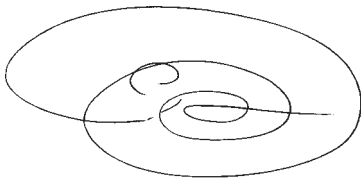
STATEMENT BY DIRECTORS

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

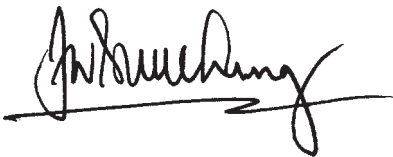
We, CORNELIS H. M. RUIJGROK and FOO SWEE LENG, being two of the Directors of DUTCH LADY MILK INDUSTRIES BERHAD, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 19 to 36 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of:-

- (i) the financial position of the Company as at 31 December 2002 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 2002.

On behalf of the Board,



CORNELIS H. M. RUIJGROK
Director



FOO SWEE LENG
Director

23 January 2003

STATUTORY DECLARATION

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

I, HUANG SHI CHIN, being the officer primarily responsible for the financial management of DUTCH LADY MILK INDUSTRIES BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 19 to 36 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 23 January 2003



HUANG SHI CHIN

Before me,



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

REPORT OF THE AUDITORS

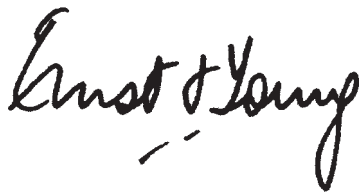
to the members of Dutch Lady Milk Industries Berhad
(Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 19 to 36. 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 applicable Approved Standards on Auditing in Malaysia. Those 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 2002 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 1556/8/04(J)
Partner

Kuala Lumpur, Malaysia
23 January 2003

STATEMENT OF INTERNAL CONTROL

Pursuant to Paragraph 15.27(b) of the Listing Requirements of the Kuala Lumpur Stock Exchange

Board's Responsibility

The Board has overall responsibility for the Company's system of internal controls, which includes the establishment of an appropriate control environment and framework, and reviews its effectiveness, adequacy and integrity. The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate course of action to manage those risks. The Company continually evaluates and manages risks and regularly reviews the planned action.

The Board maintains full control over strategic, financial, organisational and compliance issues and has put in place an organisation with formal lines of responsibility and delegation of authority. The Board and Audit Committee have delegated to executive management the implementation of the system of internal control within an established framework throughout the Company.

Internal Control Structure and Processes

The system of internal controls is designed to safeguard the assets of the Company, to ensure the maintenance of proper accounting records and to provide reliable financial information for use within the business and for publication. However, these controls provide only reasonable and not absolute assurance against material error, misstatement, loss or breach of set regulations.

The principle features of the Company's internal control structure is summarised as follows:

- **Board Committees**

There is a clear definition to the functions and responsibilities of the various committees of the Board of Directors. These include the Audit Committee, the Nomination Committee and the Remuneration Committee.

- **Organisational structure and responsibility levels**

The Company has a well-defined organisational structure with clear lines of accountability and has strict authorisation,

approval and control procedures within which senior management operates.

- **Authority levels, acquisitions and disposal**

There are clear definitions of authorisation procedures and delegated authority levels for major tenders, major capital expenditure projects, acquisitions and disposals of businesses and other significant transactions.

Investment decisions are delegated to executive management in accordance with authority limits. Comprehensive appraisal and monitoring procedures are applied to all major investment decisions.

Authority of the Directors is required for key treasury matters including changes to equity and loan financing, cheque signatories and the opening of bank accounts.

- **Procedures and control environment**

Control procedures and environment at Company and individual business unit levels and on staff policies have been established. The integrity and competence of personnel are ensured through high recruitment standards, the Hay Reward Management System, a comprehensive Performance Management System and employee development programme.

The Company also publishes and distributes to every employee guidelines on safety, health and environment.

- **Standards of business ethics**

Employees are contractually bound to observe prescribed standards of business ethics when conducting themselves at work and in their relationship with external parties, such as customers and suppliers. Employees are expected to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest.

- **Formalised strategic planning and operating plan processes**

The Company undertakes a comprehensive business planning and budgeting process each year, to establish plans and targets against which performance is monitored on an ongoing basis. Key business risks are identified during the business planning process and are reviewed regularly during the year.

- **Reporting and review**

The Company's management team regularly monitors the monthly reporting and reviews the financial results and forecasts for all the businesses within the Company against the operating plans and annual budgets. The results are communicated on a regular basis to employees.

The Managing Director also regularly reports to the Directors on significant changes in the business and the external environment in which the Company operates.

- **Financial performance**

The preparation of quarterly and full year results and the state of affairs, as published to Shareholders, are reviewed and approved by the Board. The full year financial statements are also audited by External Auditors.

Internal compliance

The Board, Audit Committee and Management regularly review the internal audit reports and monitor the status of the implementation of corrective actions to address internal control weaknesses noted.

- **Update on developments**

Regular reporting is made to the Board at its meetings of legal, accounting and environmental developments.

The outsourced Internal Audit function independently focuses on the key areas of business risk based on a work programme agreed annually with the Audit Committee, and reports on the systems of financial and operation controls on a quarterly basis to the Audit Committee.

The Internal Audit team advises executive and operational management on areas for improvement and subsequently reviews the extent to which its recommendations have been implemented. The extent of compliance is reported to the Audit Committee on a regular basis. The Audit Committee in turn reviews the effectiveness of the system of internal controls in operation and reports the results thereon to the Board.

In addition to internal controls, the Directors have ensured that safety and health regulations, environmental controls and political risks have been considered and complied with. The quality of the Company's products is paramount. Quality Assurance and Quality Control are prime considerations and in line with this, compliance to the procedures outlined for the ISO 9001 accreditation is strictly adhered to, via regular internal and external quality audits. Strong emphasis is also given to food safety with the implementation of the HACCP (Hazard Analysis Critical Control Point) System progressively to cover all plants by end 2004.

Conclusion

The Directors have reviewed the effectiveness, adequacy and integrity of the system of internal controls in operation during the financial year through the monitoring process set out above.

Consequently, there were neither material internal control failings nor significant problems that had arisen during the financial year.

FINANCIAL

Highlights

		2002	2001	2000	1999	1998
Revenue	RM'000	357,239	329,045	323,304	318,294	286,073
Profit before tax	RM'000	20,066	15,134	17,871	14,160	1,795
Profit after tax	RM'000	15,159	12,004	14,871	13,660	1,331
Net dividend paid & proposed	RM'000	5,280	3,680	3,680	2,880	–
Issued & fully paid capital	RM'000	64,000	16,000	16,000	16,000	16,000
Shareholders' funds	RM'000	141,582	126,423	118,099	106,908	96,128
Total assets	RM'000	188,729	183,630	197,224	179,563	168,178
Net tangible asset backing per share*	RM'000	2.21	1.98	1.85	1.67	1.50
Earnings per share (net)*	sen	24	19	23	21	2

* For comparative purposes, the figures for all the years have been re-calculated based on 64 million ordinary shares in issue as at 31 December 2002.



OTHER

Information

Analysis of Shareholdings

As at 14 March 2003

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
Less than 1,000	66	1.84	24,644	0.04
1,000 to 10,000 shares	3,324	92.72	8,775,304	13.71
10,001 to 100,000 shares	176	4.91	4,045,048	6.32
100,001 to Less than 5% of the issued shares	17	0.47	3,072,204	4.80
5% and above of the issued share	2	0.06	48,082,800	75.13
Total	3,585	100.00	64,000,000	100.00

Statement of Shareholdings

30 Largest Shareholders

	No. of Shares	% of Holdings
1. Frint Beheer IV BV*	32,074,800	50.12
2. Amanah Raya Nominees (Tempatan) Sdn Bhd* - Skim Amanah Saham Bumiputera	16,008,000	25.01
3. RHB Nominees (Asing) Sdn Bhd - Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	540,000	0.84
4. Yong Siew Lee	270,000	0.42
5. Kumpulan Wang Simpanan Guru-Guru	220,000	0.34
6. Yeo Khee Bee	215,000	0.34
7. Employees Provident Fund Board	201,000	0.31
8. Menteri Kewangan Malaysia Section 29 (SICDA)	189,800	0.30
9. Ng Lam Shen	160,000	0.25
10. Quek Guat Kwee	160,000	0.25
11. Amanah Raya Nominees (Tempatan) Sdn Bhd -Dana Johor	157,000	0.25
12. Universiti Malaya	144,000	0.23
13. Amanah Raya Nominees (Tempatan) Sdn Bhd -Amanah Saham Johor	128,000	0.20
14. Lee Sim Kuen	120,000	0.19
15. Tong Yoke Kim Sdn Bhd	120,000	0.19
16. Foo Mee Lee	117,404	0.18
17. Wong So-Ch'I	111,000	0.17
18. Soon Ah Khun @ Soon Lian Huat	110,000	0.17

19. Wong So Haur	109,000	0.17
20. Lim Teh Realty Sdn Bhd	90,000	0.14
21. Foo Loke Weng	80,804	0.13
22. HSBC Nominees (Asing) Sdn Bhd - Pictet and Cie for Ace Fund Sicav (Emerging Market)	80,000	0.13
23. Mayban Nominess (Tempatan) Sdn Bhd - for Goh Sin Bong	75,000	0.12
24. Lim Pin Kong	75,000	0.12
25. Neoh Soon Leong	72,000	0.11
26. See Cheng Siang	72,000	0.11
27. Leong Lai Meng	60,000	0.09
28. Looi Chin Seng	60,000	0.09
29. HSBC Nominees (Tempatan) Sdn Bhd - for Goh Hiong Eng	60,000	0.09
30. Sak Mok @ Sak Swee Len	58,000	0.09
	<u>51,937,808</u>	<u>81.15</u>

*Registered in the Company's Register as Substantial Shareholders

Directors' Interests

As at 14 March 2003

Subsequent to the financial year end, there is no change as at 14 March 2003 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.

Particulars of properties

As at 31 December 2002

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 17 years to 39 years	15 years
Net Book Value (RM'mln)	22.9	3.0

Material contracts

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.

Share Buybacks

During the financial year, there were no share buybacks by the Company.

Options, Warrants or Convertible Securities

During the financial year, the Company did not issue any options, warrants or convertible securities. During the financial year, there were no options exercised.

American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company, Directors or management by the relevant regulatory bodies.

Non-Audit Fees

During the financial year, the Company paid RM8,500 in non-audit fees to the external auditors.

Profit Estimate, Forecast or Projection

There was no variance between the results for the financial year and the unaudited results previously announced. The Company did not make any release on the profit estimate, forecast or projections for the financial year.

Profit Guarantees

During the financial year, there was no profit guarantees given by the Company.



Goodness For Life

Moojooz

Awesome Apple



Jolly Orange



Gobble Grape



Dutch Lady Cultured Milk

Yummy! Fun! And so good for you!



Dutch Lady Cultured Milk Drink is enhanced with reformulated levels of this very same Triple Care shield, giving you added value on top of the natural health benefits of LB cultures and real fruit juices. This is crucial to help your child develop mentally and physically as he starts exploring and taking on the world around him.

PROXY

Form



DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)

Goodness For Life

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

FORM OF PROXY

I/We (NRIC No.)
of.....
being a member/members of **DUTCH LADY MILK INDUSTRIES BERHAD** ("the Company"), do hereby appoint #the Chairman of the Meeting or
.....(NRIC No.)
of
as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fortieth Annual General Meeting of the Company to be held at Hotel Armada,
Lorong Utara C, Section 52, Petaling Jaya, Selangor Darul Ehsan, on Wednesday, 30 April 2003 at 10.00 a.m. and any adjournment thereof, 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 gross 6.25 sen per share, less income tax, and a 3.75 sen per share tax exempt dividend, per RM1.00 ordinary share, based on 64.0 million ordinary shares in respect of the financial year ended 31 December 2002.		
3. To approve the Directors' fees for the financial year ended 31 December 2002		
To re-elect the following Directors pursuant to Article 94 of the Company's Articles of Association:		
4. i. Tan Sri Kamarul Ariffin bin Mohd. Yassin		
5. ii. Mr. Foo Swee Leng		
6. To re-elect Mr. Cornelis H.M. Ruijgrok as Director pursuant to Article 97 of the Company's Articles of Association.		
7. To re-appoint Messrs Ernst & Young as the Company's auditors and to authorise the Directors to fix their remuneration.		
Special Business – Ordinary Resolution		
8. To approve the Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		

Delete the words "the Chairman of the Meeting if you wish to appoint some other person(s) to be your proxy.

* 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.

Signed this day of2003

No. of Shares held

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 the Annual General 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 Section 149(1)(b) of the Companies Act, 1965 shall not apply.

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.

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

To be valid, the instrument appointing a proxy, 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.



Goodness For Life