



Annual Report 2017

Dutch Lady Milk Industries Berhad



Table of Contents

Corporate and Governance

4	Notice of Annual General Meeting
6	Corporate Information
7	5-Year Financial Summary
10	Board of Directors
12	Board of Directors' Profiles
16	Management Team Profiles
19	Chairman's Statement
22	Management Discussion & Analysis
28	Statement of Corporate Governance
43	Audit Committee Report
47	Sustainability Statement
60	Statement of Risk Management and Internal Control

Financial Reports

66	Directors' Report
70	Statement of Financial Position
71	Statement of Profit or Loss and Other Comprehensive Income
72	Statement of Changes in Equity
73	Statement of Cash Flows
74	Notes to the Financial Statements
110	Statement by Directors
110	Statutory Declaration
111	Independent Auditors' Report

Additional Information

116	Recurrent Related Party Transactions of a Revenue or Trading Nature
117	Additional Compliance Information
118	Analysis of Shareholdings Proxy Form



Dutch Lady Milk Industries Berhad is a subsidiary of Royal FrieslandCampina N.V.

www.frieslandcampina.com





WE BELIEVE IN
VALUES

Accountability

Ownership for making it happen

Action

Growth of people and business

Alignment

Clarity on how we win together







Start the Day Right!

Breakfast is what powers you and your family through your morning at work or at school. Dutch Lady PureFarm milk with its wholesome nutrients such as calcium, protein and vitamins A, D3 and B2 is well placed to help you power up any breakfast for families to stay healthy, alert and ready to learn every day.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Fifth Annual General Meeting of the Company will be held at Atlanta Ballroom, Level 3, Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Thursday, 26 April 2018 at 9 a.m. for the purpose of transacting the following business:

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017, together with the Reports of the Directors and Auditors thereon (Please refer to Explanatory Note 1).

2. To approve the proposed increase and payment of Directors' fees of RM450,000 for the financial year ending 31 December 2018, to be made payable quarterly.

Resolution 1

3. To approve the payment of Directors' benefits (other than Directors' fees) of RM200,000 to Non-Executive Directors for the period from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company.

Resolution 2

4. To re-elect the following Directors who retire by rotation pursuant to Article 93(a) of the Constitution of the Company:

- (a) Dato' Zainal Abidin bin Putih
- (b) Mr. Boey Tak Kong

Resolutions 3 and 4

5. To re-elect the following Directors who were appointed during the year and retire pursuant to Article 96 of the Constitution of the Company:

- (a) Mr. Tarang Gupta
- (b) Mr. Bernardus Hermannus Maria Kodden
- (c) Dato' Dr. Rosini binti Alias

Resolutions 5, 6 and 7

6. To re-appoint PricewaterhouseCoopers PLT (LLP0014401-LCA & AF: 1146) as the Company's auditors and to authorise the Directors to fix their remuneration.

Resolution 8

AS SPECIAL BUSINESS

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

7. **PROPOSED NEW AND RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE.**

"**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 2.1.4 with the specified classes of Related Parties as stated in Section 2.1.3 of the Circular to Shareholders dated 28 March 2018 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) the aggregate value of such transactions conducted pursuant to the Shareholders' Mandate 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 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 340(2) of the Companies Act, 2016 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the 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 in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

Resolution 9

8. RETENTION OF INDEPENDENT DIRECTOR OF THE COMPANY

"**THAT** approval be and is hereby given to Mr. Boey Tak Kong who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company."

Resolution 10

9. To transact any other business of which due notice shall have been given in accordance with the Constitution of the Company and the Companies Act, 2016.

By Order of the Board

CHEN BEE LING (MAICSA 7046517)
TAN LAI HONG (MAICSA 7057707)
 Company Secretaries
 Petaling Jaya
 28 March 2018

Notes:

1. 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. A proxy appointed to attend and vote at the Meeting shall have the same rights as a Member to speak at the Meeting.
2. Save for an Exempt Authorised Nominee as defined under the Central Depositories Act which may appoint multiple proxies in respect of each Omnibus Account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member (including an authorised nominee) shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting. In any case, where more than one (1) proxy is appointed, such appointment shall not be valid unless the proportion of the holdings represented by each proxy is specified.
3. The instrument appointing the proxy must be signed by the Member or his attorney duly authorised in writing, or if the appointer is a corporation, the instrument must be executed under its common seal or under the hand of its officer or attorney duly authorised.
4. Only Members whose names appear in the Record of Depositors as at 20 April 2018 (General Meeting Record of Depositors) shall be entitled to attend and vote at the Meeting or appoint proxy/proxies to attend and vote on his behalf.
5. To be valid, the original instrument appointing a proxy, duly completed (and if applicable, the power of attorney or other authority under which it is originally signed or notarially certified

copy of that power of authority) must be deposited at the office of Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time set for holding the Meeting or any adjournment thereof (or in the case of poll, before the time appointed for the taking of the poll).

6. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the Notice of the Fifty-Fifth AGM will be put to vote by way of poll.

7. Registration and Door Gifts

Registration will commence at 7.30 a.m. on the day of the Meeting. Members and Proxies are advised to be punctual. For verification purposes, Members and Proxies are required to produce their original identification card at the registration counter.

In conformity with past practice, please take note that each Member or Proxy who is present shall be entitled to one (1) door gift only upon registration, irrespective of the number of Members he/she represent (e.g. in the event a Member and/or Proxy represents himself and/or two or more Members, he/she shall be entitled to one (1) door gift only).

Explanatory Notes to the Agenda

(i) First item of the Agenda

This item of the Agenda is meant for discussion only in accordance with the provision of Section 340(1)(a) of the Companies Act, 2016. As such this item on the Agenda is not put forward for voting.

(ii) Resolution 8: Re-appointment of PricewaterhouseCoopers PLT as the Company's auditors

With effect from 2 January 2018, Messrs. PricewaterhouseCoopers, a conventional partnership firm with the Registration No. AF1146 has converted to PricewaterhouseCoopers PLT, a limited liability partnership with the Registration No. LLP0014401-LCA & AF 1146. PricewaterhouseCoopers PLT had given their consent for re-appointment as Auditors of the Company.

(iii) Resolution 9: Proposed New and Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

Please refer to the Circular to Shareholders dated 28 March 2018.

(iv) Resolution 10: Retention of Mr. Boey Tak Kong as an Independent Director of the Company

The Nomination Committee has assessed the independence of Mr. Boey Tak Kong who has served as Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, and arising therefrom, the Board recommended that he continue to act as Independent Non-Executive Director of the Company based on the following justifications:-

- (a) He fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and thus he would be able to function as check and balance and brings with him an element of objectivity to the Board;
- (b) He provides the Board with a diverse set of experience, skill and expertise;
- (c) He has performed his duty diligently and in the best interest of the Company and provides a broader view, independent and balanced assessment of proposals from the Management; and
- (d) He does not hold any shares in the Company and has no business dealings with the Company, save and except as being a member of the Board of Directors of the Company.

Corporate Information

BOARD OF DIRECTORS

CHAIRMAN

Dato' Zainal Abidin bin Putih
Sr. Independent
Non-Executive Director

DIRECTORS

Tarang Gupta
Managing Director
(appointed 1.1.2018)

Saw Chooi Lee
Non-Independent
Non-Executive Director
(re-designated 1.1.2018)

Boey Tak Kong

Independent Non-Executive Director

Foo Swee Leng

Independent Non-Executive Director

Bernardus Hermannus Maria Kodden

Non-Independent
Non-Executive Director
(appointed 1.1.2018)

Dato' Dr Rosini Binti Alias

Non-Independent
Non-Executive Director
(appointed 16.3.2018)

Dato' Dr. Mhd. Nordin bin Mohd Nor

Non-Independent
Non-Executive Director
(resigned 16.3.2018)

Piet Johannes Hilarides

Non-Independent
Non-Executive Director
(resigned 31.12.2017)

Jaska Marianne de Bakker

Non-Independent
Non-Executive Director
(resigned 31.12.2017)

COMPANY SECRETARY

Chen Bee Ling
Chartered Secretary
(MAICSA 7046517)

Tai Lai Hong
Chartered Secretary
(MAICSA 7057707)

AUDIT COMMITTEE

CHAIRMAN

Boey Tak Kong

MEMBERS

Dato' Zainal Abidin bin Putih
Foo Swee Leng
Dato' Dr. Mhd. Nordin bin Mohd Nor
(resigned 16.3.2018)

REMUNERATION COMMITTEE

CHAIRMAN

Dato' Zainal Abidin bin Putih
(appointed 27.2.2018)

MEMBERS

Saw Chooi Lee
Boey Tak Kong
(appointed 27.2.2018)

NOMINATION COMMITTEE

CHAIRMAN

Foo Swee Leng

MEMBERS

Dato' Zainal Abidin bin Putih
Boey Tak Kong

REGISTERED OFFICE

Level 5, Quill 9,
112, Jalan Semangat
46300 Petaling Jaya
Selangor Darul Ehsan
Telephone : 03-79532600
Facsimile : 03-79532700

REGISTRAR

SYMPHONY SHARE REGISTRARS SDN BHD

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Telephone : 03-78418000
Facsimile : 03-78418151

WEBSITE

www.dutchlady.com.my

INVESTOR RELATIONS & ENQUIRIES

Mirjam van Thiel
Finance Director
finance.dept@frieslandcampina.com

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
Stock Code: DLADY 3026

AUDITORS

PRICEWATERHOUSECOOPERS PLT (LLP0014401-LCA & AF 1146)
Chartered Accountants
Level 10, 1 Sentral, Jalan Rakyat
Kuala Lumpur Sentral
50706 Kuala Lumpur, Malaysia

PRINCIPAL BANKERS

PUBLIC BANK BERHAD
12, Jalan 14/14
46100 Petaling Jaya
Selangor Darul Ehsan

CITIBANK BERHAD
Level 45, Menara Citibank,
No. 165 Jalan Ampang,
50450 Kuala Lumpur

MALAYAN BANKING BERHAD
18A, Jalan 14/14
46100 Petaling Jaya
Selangor Darul Ehsan

SOLICITORS

KHAW & PARTNERS

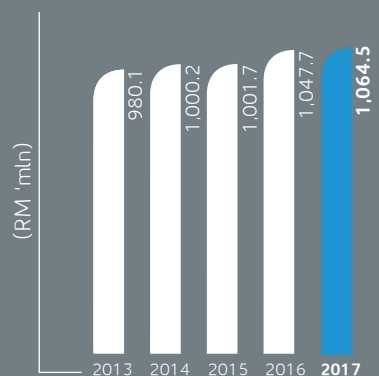
6th Floor
Menara Boustead
Jalan Raja Chulan
50200 Kuala Lumpur

WONG & PARTNERS

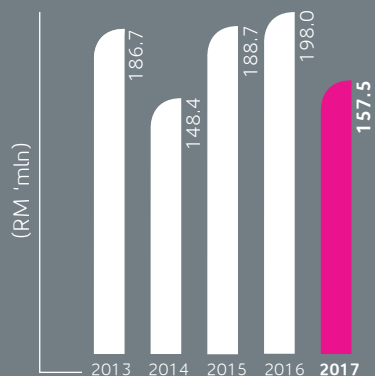
Level 21, The Gardens South Tower,
Mid Valley City,
Lingkar Syed Putra,
59200 Kuala Lumpur

5-Year Financial Summary

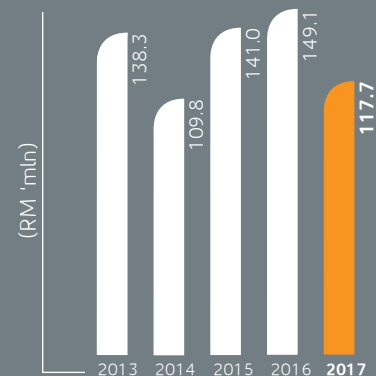
REVENUE



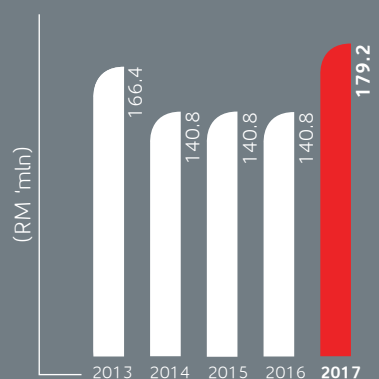
PROFIT BEFORE TAX



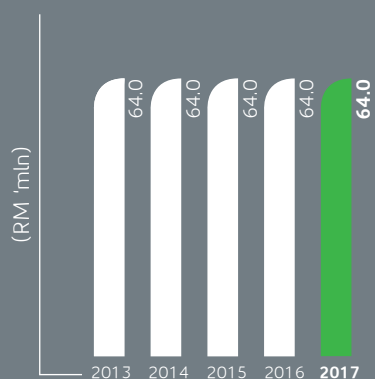
NET PROFIT FOR THE YEAR



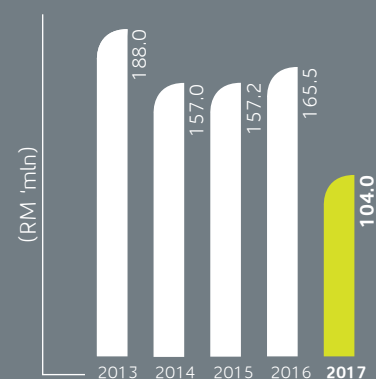
NET DIVIDEND PAID



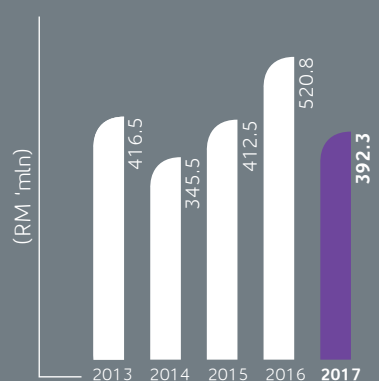
PAID-UP SHARE CAPITAL



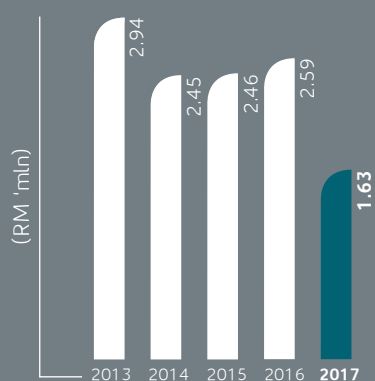
SHAREHOLDERS FUND



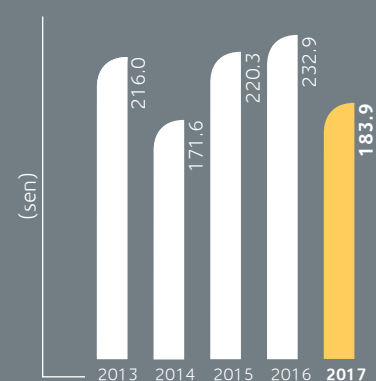
TOTAL ASSETS



NET ASSET BACKING PER SHARE



EARNINGS PER SHARE





Easy on Little Tummies!

Friso Gold formulated milk powder is rich in important nutrients to ensure your young children has a balanced diet. Our LocNutri™ production technology preserves the native structure of milk proteins to keep its smooth texture and make it easier for little tummies to digest and build their immune system to grow stronger from the inside.



Board of **Directors**





from left to right:

Dato' Dr. Rosini Binti Alias, Foo Swee Leng, Saw Chooi Lee,
Dato' Zainal Abidin Bin Putih, Tarang Gupta, Boey Tak Kong and
Bernardus Hermannus Maria Kodden

Board of Directors' Profile



DATO' ZAINAL ABIDIN BIN PUTIH

Chairman / Sr Independent Non-Executive Director

Gender: Male

Nationality: Malaysian

Age: 72

Date of Appointment: 27 May 2009

Tenure of Directorship: 8 years

MEMBERSHIP OF BOARD COMMITTEE:

- Remuneration Committee (Chairman)
- Audit Committee
- Nomination Committee

QUALIFICATIONS:

- Chartered Accountant of the International Association of Chartered Certified Accountants (England & Wales)
- Member of the Malaysian Institute of Certified Public Accountants
- Chartered Accountant of the Malaysian Institute of Accountants

WORKING EXPERIENCE:

Dato' Zainal Abidin has extensive experience in audit, management consulting and taxation, having been involved as a practicing accountant and consultant throughout his career. He was formerly the Country Managing Partner of Messrs Hanafiah Raslan and Mohamad which merged with Messrs Arthur Andersen in 1990 and was an Adviser with Messrs Ernst & Young Malaysia, until his retirement on 31 December 2004. He is also the past President of the Malaysian Institute of Certified Public Accountants, Malaysian Accounting Standards Board and previously served as a member of the Malaysian Communication and Multimedia Commission and a member of the Investment Panel of the Employees Provident Fund, amongst others.

DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

- CIMB Bank Berhad
- Land and General Berhad,
- Petron Malaysia Refining & Marketing Berhad
- Tokio Marine Insurans (Malaysia) Berhad

He also holds directorships in several other private limited companies.

He does not have any family relationship with any director and/or major shareholder of the Company, nor any conflict of interest with the Company. He has no convictions for any offences within the past five years and he does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.



TARANG GUPTA

Managing Director / Executive Director

Gender: Male

Nationality: Indian

Age: 41

Date of Appointment: 1 January 2018

Tenure of Directorship: 3 months

MEMBERSHIP OF BOARD COMMITTEE:

- None

QUALIFICATIONS:

- Bachelor Degree in Hotel Management, Welcomgroup Graduate School of Hotel Administration, Manipal, India
- MBA in Marketing from Institute for Technology & Management, Bangalore, India associated with New Hampshire College, USA

WORKING EXPERIENCE:

Prior to this role, Tarang was the Marketing Director for FrieslandCampina Nigeria, a position he has held since 2014. He joined FrieslandCampina in 2010 and was the International Marketing Director for Infant & Toddler Nutrition ("ITN") for FrieslandCampina AMEA for four years, based in Singapore.

Tarang has 16 years of commercial experience within the fast moving consumer goods industry. This has helped him hone his expertise in portfolio building, global category building & strategy, commercial implementation and business turnaround. He has previously held sales and marketing positions at Sara Lee International, Cadbury and Unilever.

He has no directorships in other public companies and listed issuers.

He does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V.. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years. He does not hold any shares in the Company.

**BOEY TAK KONG**

Independent Non-Executive Director

Gender: Male**Nationality:** Malaysian**Age:** 63**Date of Appointment:** 12 November 2001**Tenure of Directorship:** 16 years 4 months**MEMBERSHIP OF BOARD COMMITTEE:**

- Audit Committee (Chairman)
- Nomination Committee
- Remuneration Committee

QUALIFICATIONS:

- Chartered Accountant of the Malaysian Institute of Accountants
- Fellow of the Association of Chartered Certified Accountants (UK)
- Associate of the Institute of Chartered Secretaries & Administrators (UK)
- Member of the Institute of Marketing Malaysia
- Member of the Malaysian Institute of Management

WORKING EXPERIENCE:

He has over 24 years of broad senior management experience in financial management, internal audit, general management, corporate affairs and regional business development with 5 major listed groups with listings in Malaysia, Singapore, United Kingdom, Australia and New Zealand.

His industry knowledge covers financial services, industrial equipment assembly and distribution, general insurance, textile manufacturing, property development, infrastructure project management and integrated timber processing and marketing business.

Presently, he is the Managing Director of Terus Mesra Sdn Bhd, a governance and leadership development training company.

DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS:

- Censof Holdings Berhad
- Gadang Holdings Berhad
- Green Packet Berhad
- Ho Hup Construction Company Berhad

He does not have any family relationship with any director and/or major shareholder of the Company, nor any conflict of interest with the Company. He has no convictions for any offences within the past five years and he does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

**SAW CHOOI LEE**

Non-Independent Non-Executive Director

Gender: Female**Nationality:** Malaysian**Age:** 54**Date of Appointment:** 1 January 2014**Tenure of Directorship:** 4 years 3 months**MEMBERSHIP OF BOARD COMMITTEE:**

- Remuneration Committee

QUALIFICATIONS:

- Bachelor of Science in Business Administration and MBA from the University of Nebraska-Lincoln, USA

WORKING EXPERIENCE:

Chooi Lee was the Managing Director for Dutch Lady Milk Industries Berhad since 1 January 2014. She was re-designated as Non-Independent Non-Executive Director with effect from 1 January 2018.

She started her marketing career by joining the Unilever management training programme and since then, she has held various senior managerial positions within the fast moving consumer goods industry. She joined the Company in March 2003 as its Commercial Director until March 2008, where she was then appointed as the General Manager for FrieslandCampina Hong Kong from 2008 to 2010. She was promoted to become the Managing Director for FrieslandCampina Mainland China in 2011-2014.

She has no directorships in other public companies and listed issuers.

She does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V.. She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years. She does not hold any shares in the Company. She attended all four Board Meetings held during the financial year.

Board of Directors' Profile



FOO SWEE LENG

Independent Non-Executive Director

Gender: Male

Nationality: Malaysian

Age: 71

Date of Appointment: 18 June 1986

Tenure of Directorship: 31 years 9 months

MEMBERSHIP OF BOARD COMMITTEE:

- Audit Committee
- Nomination Committee (Chairman)

QUALIFICATIONS:

- Degree in Economics from University Malaya.

WORKING EXPERIENCE:

He was formerly the Managing Director of the Company and the Regional Director of Friesland Asia Pacific, with over 40 years of experience in the fast moving consumer goods industry in the domains of commercial and business risk management.

He has no directorships in other public companies and listed issuers.

He does not have any family relationship with any director and/or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years. He does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.



BERNARDUS HERMANNUS MARIA KODDEN

Non-Independent Non-Executive Director

Gender: Male

Nationality: Dutch

Age: 44

Date of Appointment: 1 January 2018

Tenure of Directorship: 3 months

MEMBERSHIP OF BOARD COMMITTEE:

- None

QUALIFICATIONS:

- BA in International Economics/Modern Japanese Studies University of Rotterdam in the Netherlands.
- MA International Relations, University of Groningen in the Netherlands.
- MBA in Project Management from University of Bradford/ NIMBAS University.

WORKING EXPERIENCE:

He assumed the position of President of Business Group, Specialised Nutrition for Royal FrieslandCampina N.V on 1 January 2018. Mr Kodden has extensive experience in Sales, Marketing, General Management and crisis management.

Prior to his current role, he was the Managing Director for FrieslandCampina, Branded Netherlands. Besides, he has held various director and managerial positions for Infant & Toddler Nutrition, Brand and Innovation and Sales within Royal Friesland Foods and later FrieslandCampina N.V.

He has no directorships in other public companies and listed issuers.

He does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years. He does not hold any shares in the Company.

**DATO' DR. ROSINI BINTI ALIAS**

Non-Independent Non-Executive Director

Gender: Female

Nationality: Malaysian

Age: 60

Date of Appointment: 16 March 2018

Tenure of Directorship: 0.5 months

MEMBERSHIP OF BOARD COMMITTEE:

- None

QUALIFICATIONS:

- Doctor of Veterinary Medicine, DVM, Universiti Pertanian Malaysia, 1983.

WORKING EXPERIENCE:

She was formerly the Deputy Director-General of the Department of Veterinary Services (DVS), Malaysia. Her career in the veterinary and agricultural sector spans over 30 years, and her contribution and service to the veterinary sector was recognised by industry patrons in 2015 and 2017, including state honours.

She has no directorships in other public companies and listed issuers.

She does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Permodalan Nasional Berhad.

She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

Management Team Profiles

TARANG GUPTA



Gender: Male
Nationality: Indian
Aged: 41

Appointed as Managing Director of Dutch Lady Milk Industries Berhad on 1 January 2018. Prior to this role, Tarang was the Marketing Director for FrieslandCampina Nigeria, a position he has held since 2014. He joined the FrieslandCampina family in 2010 and was the International Marketing Director for Infant & Toddler Nutrition ("ITN") for FrieslandCampina AMEA for four years, based in Singapore.

His 16 years of commercial experience in the fast moving consumer goods ("FMCG") industry has helped him hone his expertise in portfolio building, global category building & strategy, commercial implementation and

business turnaround. He has previously held sales and marketing positions at Sara Lee International, Cadbury and Unilever.

Tarang holds a Master's Degree in Marketing from Institute of Technology & Management, Bangalore India and New Hampshire College, USA and a Bachelor's Degree in Hotel Management from Welcomgroup Graduate School of Hotel Administration, Manipal, India.

He has no directorships in other public companies and listed issuers. Tarang does not have any family relationship with any director and/or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

MIRJAM VAN THIEL



Gender: Female
Nationality: Dutch
Aged: 39

Appointed as Finance Director of Dutch Lady Milk Industries Berhad in March 2015. Prior to this position, Mirjam was Chief Financial Officer at H.J. Heinz Australia, New Zealand & Papua New Guinea upon her appointment in February 2014. Mirjam joined the H.J. Heinz Company in November 2002 and has held various managerial positions across Europe, Australia and Indonesia since.

Mirjam is a graduate in Management, Economics and Law from the Hogeschool in Utrecht in the Netherlands and has a Master in Financial Management and an Executive Master in Finance and Control from the Nyenrode Business University in the Netherlands.

She has no directorships in other public companies and listed issuers. She does not have any family relationship with any director and/or major shareholder of the Company. She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

ASHLEE NG



Gender: Female
Nationality: Malaysian
Aged: 39

Appointed as the Marketing Director of Dutch Lady Milk Industries Berhad in March 2016, and recently assumed the role of Marketing Director, Specialised Nutrition at the Company.

Prior to joining Dutch Lady Malaysia, she was the Personal Care Director for Unilever Malaysia, responsible for hair care, personal wash, deodorants & skin care divisions. She began her career as a management trainee at Unilever, and held various marketing managerial roles in Malaysia and Singapore during her 13 years with them, responsible for their branding,

marketing campaigns, communications and media strategies. This includes heading the marketing department for their ice cream business.

Ashlee holds a Master's Degree in Business Systems and a Bachelor's Degree in Marketing from Monash University, Australia.

She has no directorships in other public companies and listed issuers. She does not have any family relationship with any director and/or major shareholder of the Company. She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

RAMJEET KAUR VIRIK



Gender: Female
Nationality: Malaysian
Aged: 41

Appointed Marketing Director, Consumer Dairy Business of Dutch Lady Milk Industries Berhad on 1 January 2018. Prior to this appointment, Ramjeet was the International Marketing Manager at FrieslandCampina Asia based in Singapore and spent two and a half years prior as the Marketing Manager at PT Frisian Flag Indonesia. She has been part of FrieslandCampina for the last 6 years.

She has more than 17 years' experience in various Commercial roles; namely in Marketing, Sales and Shopper functions. Her career started

in other leading FMCG organisations such as British American Tobacco (M) Sdn Bhd and Heineken Malaysia Berhad (previously known as Guinness Anchor Berhad).

Ramjeet holds a Bachelor of Science Degree in Economics, Banking and Finance from the prestigious London School of Economics, United Kingdom.

She has no directorships in other public companies and listed issuers. She does not have any family relationship with any director and/or major shareholder of the Company. She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

Management Team Profiles

KATRINA NEO



Gender: Female
Nationality: Malaysian
Aged: 42

Appointed as the Sales Director of Dutch Lady Milk Industries Berhad in December 2015. Prior to this, she was the Company's National Sales Manager – Modern Trade, a position she assumed in August 2012. She was previously the General Manager, Sales – Circulation for the New Straits Time Press Sdn Bhd and has held various sales managerial positions with various FMCG companies based in Malaysia.

Katrina holds a Bachelor's Degree in Commerce (Management and Marketing) from Curtin University of Technology, Australia.

She has no directorships in other public companies and listed issuers. She does not have any family relationship with any director and/or major shareholder of the Company. She does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

ROGIER VAN DER HEIJDEN



Gender: Male
Nationality: Dutch
Aged: 43

Appointed as the Operations Director of Dutch Lady Milk Industries Berhad in December 2015. Prior to this position, he was the Procurement Director Asia for Royal FrieslandCampina N.V. based in Singapore, a position he assumed in July 2011. Before that, he has had various procurement roles within the FrieslandCampina group of companies

and other multinational companies.

Rogier holds a Masters' Degree in Business Economics from Tilburg University, the Netherlands.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

MAHADEVAN SIVARAMAKRISHNAN



Gender: Male
Nationality: Malaysian
Aged: 50

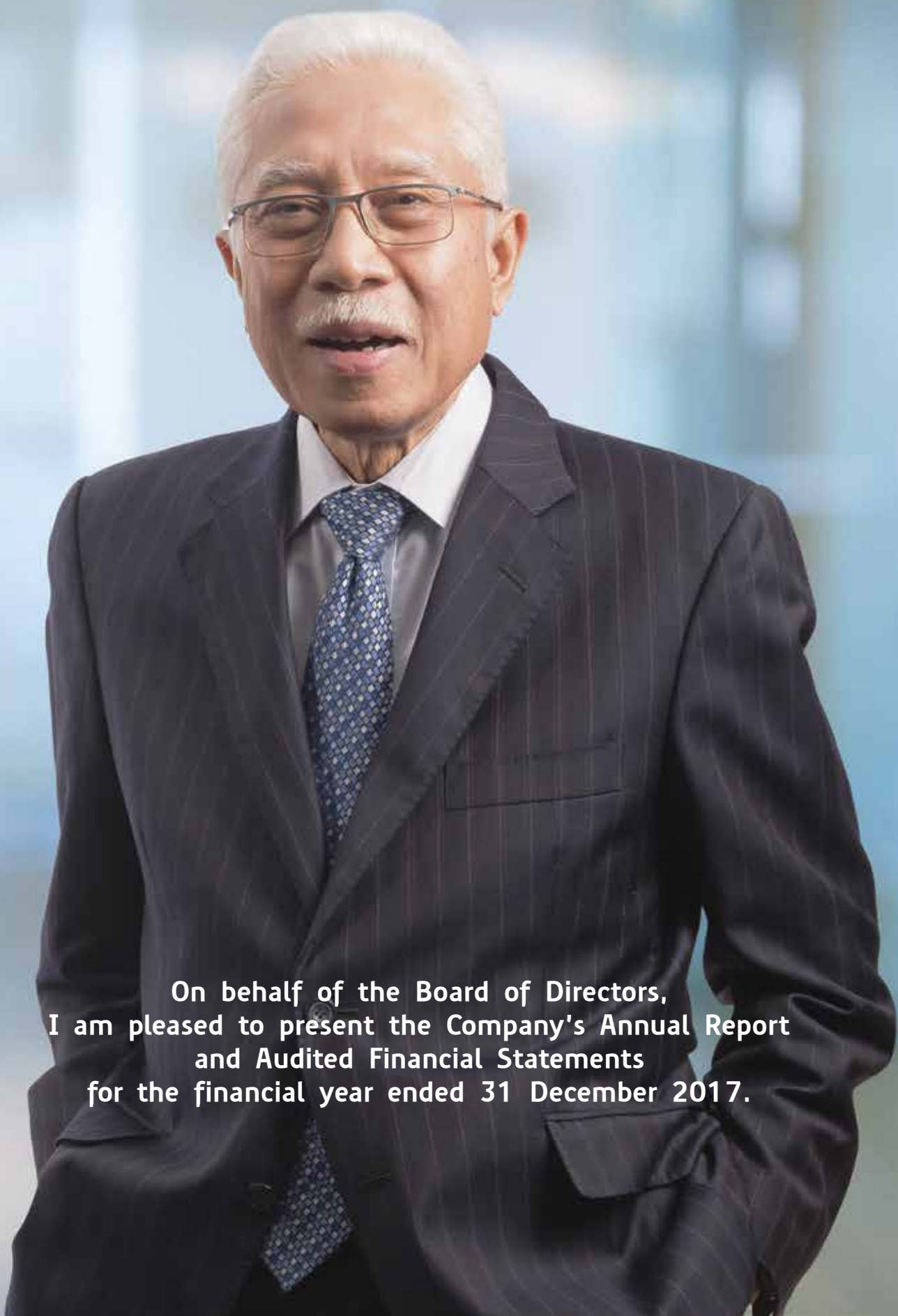
Appointed as the Human Resources Director of Dutch Lady Milk Industries Berhad on September 2012. Prior to this, he was the Human Resource Manager of Danone Dumex Sdn Bhd. He has also held a variety of human resource positions in local companies of various industries.

Devan holds a Bachelor's Degree in Commerce from Delhi Commercial

University, India and a Bachelor's Science Degree in Business Administration (with a double major in Human Resource Management) from Hawaii Pacific University, Honolulu, Hawaii.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past five years.

Chairman's **Statement**

A portrait of an elderly man with white hair and a mustache, wearing glasses, a dark pinstripe suit, a white shirt, and a blue patterned tie. He is standing with his hands in his pockets against a blurred background of a modern building with large windows.

**On behalf of the Board of Directors,
I am pleased to present the Company's Annual Report
and Audited Financial Statements
for the financial year ended 31 December 2017.**

Chairman's Statement



Putra Brand Awards



The Edge Billion Ringgit Club & Corporate Awards 2017

OPERATING ENVIRONMENT

2017 was a year full of challenges. While there were positive indicators on the Malaysian Economy, we saw Malaysian Consumer sentiment level still below the neutral threshold albeit much improved compared to the last 2 years. The Dairy market showed some small growth but the growth remained lower than 2016 as consumers remain cautionary on spending. The domestic fast-moving consumer goods ("FMCG") industry was impacted by rising raw material costs (especially dairy raw materials) and the falling value of the Ringgit.

REVIEW OF RESULTS

Despite the challenges, Dutch Lady Malaysia still made satisfactory progress and was able to post a modest business growth of 2.5% in revenue in the financial year ended 31 December 2017. However, part of the business growth was offset by an increase in provision that lowered revenue, following alignment with stricter Group Policy. Due to this as well as higher input costs coming from higher global dairy prices and weaker Malaysian Ringgit, profit before tax was lower by 20% vs prior year of RM157.5 million vs RM198.0 million in 2016.

The Company continued to build on its mission of nourishing Malaysians and was successful in defending its market leadership position both in the infant toddler nutrition and also ambient Ready to Drink Milk categories despite facing fierce competition. Various exciting marketing and promotional activities were implemented to focus on delivering quality and nutritious dairy products to Malaysian consumers. Amongst the highlights, we continued to promote healthy lifestyle habits via Dutch Lady's Breakfast Campaign and Drink.Move.

BeStrong ("DMBS") campaign. 2017 also saw many new campaigns being launched using innovative digital tools that reinforced Dutch Lady's position as the favourite dairy beverage brand for Malaysians.

INDUSTRY AWARDS AND MARKET LEADERSHIP

I am pleased to inform you that the Company was awarded and recognised with the Silver Award in the Consumer Products Sector for Highest Return on Equity over Three Years by The Edge Billion Ringgit Club. Continuing our winning streak, the Company also received the top People's Choice Award for the dairy beverage category for the second consecutive year as Gold Winner – Putra Brand Awards for 2017. We are also very proud to be recognised by Jakim for the 2017 Halal Fast Track Award and Halal White List Award, the highest recognition awarded to manufacturers in Malaysia for the integrity of Halal compliance.

With our continued involvement with the School Milk Programme (PS1M) and the Anugerah 3K programme carried out with the Ministry of Education, these have given the Company the ideal platform to inculcate the message of getting proper nutrition and leading an active and healthier lifestyle especially for school children. The Company also continued its longstanding involvement in the Dairy Development Programme ("DDP") (since 2013) in collaboration with the Department of Veterinary Services Malaysia ("DVS") and the Embassy of the Netherlands to help improve the production and quality of local fresh milk. Three Dutch farmers were in Malaysia in April 2017 to share knowledge with our local farmers via the Farmer2Farmer programme focusing on good farm management.



2017 Dividend Paid RM179.2 million

SUSTAINABILITY INITIATIVES

On the operations side, the Company continues to make safety its No. 1 priority, by building a strong safety culture hinged on the 7 Life Saving Rules, not just for our employees but also with our business partners and contractors. The Company also embarked on a 3-year journey for the "World Class Operations Management Programme", a series of modules for training and programmes to improve utilisation rate of the production lines and reducing material and energy consumption. 2017 also witnessed the successful signing of the new 3-year Collective Agreement with the Company's Labour Union and Industry Food Union.

DIVIDENDS

During the financial year ended 31 December 2017, a total of RM179.2million was paid out as standard, special, and a one-time extraordinary interim dividend to shareholders. This represents more than 100% distribution of the Company's net profit of the year 2017 attributable to shareholders.

In respect of the financial year ending 31 December 2018, the first interim and special interim ordinary dividends declared on 27 February 2018 by the Directors are 50.00 sen and 60.00 sen per ordinary share respectively totalling RM32,000,000 and RM38,400,000, to be paid on 25 May 2018.

I wish to remind shareholders that the payment of any special and extraordinary interim dividends is very much dependent on the Company's business profitability and operational needs during the year.

BOARD CHANGES

For 2018, we will see some changes to the Board composition. Ms. Saw Chooi Lee has retired from her position as Managing Director for the Company as of 1 January 2018, however will remain a valued member of the Board as a Non-Independent Director. I wish to record our heartfelt gratitude to Ms. Saw Chooi Lee for leading the company the last three years. Mr. Tarang Gupta has been appointed as the new Managing Director with effect from 1 January 2018. Mr. Foo Swee Leng has informed the board that he will resign at the conclusion of the upcoming AGM. He has been a very valued Board member for more than 30 years and I wish to record our warmest gratitude for his contribution. Dato' Dr. Mhd Nordin resigned from the Board in March 2018. We would like to extend our deepest appreciation and thank him for his contributions over the last 14 years. I have also the pleasure of extending a warm welcome to Mr. Bernardus Hermannus Maria Kodden and Dato' Dr. Rosini Binti Alias as new members to the Board. At the same time, we bid farewell to Mr. Piet Hilarides and Ms. Jaska Marianne de Bakker. I wish to record our thanks and appreciation to Mr. Piet and Ms. Jaska.

PROSPECTS

We foresee another challenging year ahead of us, as the market will be impacted by various domestic and global uncertainties and with consumer sentiment remaining low. Nonetheless, the Company will remain focused and committed to leveraging on the strength of the Dutch Lady brand and its range of quality product offerings. The Company will also continue to invest behind its brands, people and capabilities and to remind Malaysians on the importance of drinking milk in line with the Company's mission to help Malaysians move forward in their lives with trusted dairy nutrition.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to convey our sincere thanks to the authorities for their continued guidance, the shareholders for their continued support and not forgetting the management, employees, and business partners of the Company for their outstanding dedication and commitment in 2017 despite difficult market conditions. I wish them greater success in the years ahead.

DATO' ZAINAL ABIDIN BIN PUTIH
Chairman

Management Discussion & Analysis



OPERATION INSIGHTS

Dutch Lady Malaysia is a leading established dairy company in Malaysia with over 50 years of presence backed by over 140 years of Dutch dairy heritage. With Royal FrieslandCampina N.V. ("RFC"), one of the world's largest dairy co-operatives based in the Netherlands, as the Company's ultimate holding company, Dutch Lady Malaysia is constantly looking to further strengthen its position as a leading local dairy player.

Based in Petaling Jaya, Selangor, Dutch Lady Malaysia was the first milk company in Malaysia to be listed on the Kuala Lumpur Stock Exchange. Today it continues to be locally focused to remain relevant and close to its consumers while benefiting from the scale and size as a member of a global multinational organisation.

Our Products & Brands

Since 1963, Dutch Lady Malaysia has been spreading the goodness of milk through its products under the brands Dutch Lady and Friso, focusing on the Ready-to-drink category and powdered milk for children.

Strategic Direction

FrieslandCampina has in place a strategic direction, named as Route 2020 Strategy: sustainable growth and value creation.

During the year 2017, RFC has launched globally the Fast Forward programme to support the Route 2020 Strategy and to further unleash the overall company's potential.

Under this programme, FrieslandCampina intends to simplify the organisation into four global business groups, being Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. A less complex structure will enable FrieslandCampina to more decisively respond to the market developments and to accelerate innovations with respect to strategic priorities.

Globally within FrieslandCampina, the Fast Forward change process has been launched with three focus areas:

- Purpose driven
- Commercially obsessed
- Owners' mind-set

Locally, for Dutch Lady Malaysia, our strategy is to be a top dairy player leveraging our strong Dutch dairy heritage to nourish Malaysian families and children. The strategic priorities are to maintain its stronghold as the leading brand in Ready-to-drink category and strengthen market leadership in the category of powdered milk for children. Moving forward in 2018, Dutch Lady Malaysia is embedding the global Fast Forward programme to accelerate its performance.

In 2017 key focus areas for the Company were as follows:

- Invest in the future to strengthen volume developments: Continue to provide quality and nutritious products for Malaysians.
- "Execute to win": Understand shoppers' habit change and be available to meet their demands and adapt its portfolio to the changing consumer habits driven by macro-economic drivers.
- Strengthen our operational efficiency and effectiveness.

Business Structure

The Company operates principally in Malaysia and in one major business segment. As such, only one reportable segment analysis is prepared. The Company's Board of Directors reviews internal management reports on a quarterly basis.

Performance is measured based on segment profit, as included in the internal management reports that are reviewed by the Company's Board of Directors. Segment profit is used to measure performance as Management believes that such information is the most relevant in evaluating the results of the segment relative to other entities that operate within the industry.

The Company is operating as one single legal business entity and has not entered into any acquisition and disposal of subsidiaries and associated companies during the financial year under review.

Marketing Initiatives

Throughout the year, we continued to invest behind our brands with the following brand campaigns and activations:

Quarter 1	Dutch Lady Growing Up Milk 'Mak Hebat, Mak Menang' campaign
	Dutch Lady Ready-to-Drink-'What's in a glass' campaign
Quarter 2	Dutch Lady UHT 'MemangOhsem' Shoppers' campaign
	Dutch Lady's World Milk Day celebration
Quarter 3	Dutch Lady PureFarm BreakFast campaign
	Dutch Lady and Jr. NBA Drink.Move.BeStrong activation
Quarter 4	Friso Gold Nature & Science campaign, focussing on best digestion and stronger inside
	Launch of Dutch Lady Milky 225ml leveraging the brand power of Star Wars
	Dutch Lady Growing Up Milk 'Bijak dengan 5x DHA' campaign

For the second year in a row, the Dutch Lady brand emerged as the Gold Winner of the 2017 Putra Brands People's Choice Award in the dairy beverages category.

In 2017, Dutch Lady Malaysia also received the highest recognition awarded by JAKIM, the Halal Fast Lane Award and the Halal White List Award, a recognition given to local food manufacturers and multinational companies ("MNCs"). The Halal Fast Lane Award and Halal White List Award are only extended by JAKIM to selected companies in appreciation of their commitments and efforts towards elevating Halal compliance in the Company. This confirms that Dutch Lady's Halal system and practices are well in place in preserving Halal integrity throughout the supply chain to serve Malaysian consumers.

Productivity Initiatives

During the year, various projects were carried out to strengthen our operational efficiency and effectiveness to ensure we continue to build for the future. Examples being:

- Set up of a Financial Shared Services to drive operational excellence in financial administrative processes;
- Improve speed to market and reach to consumers with lower cost to serve through optimisation of our current route to market and consolidation of distributors nationwide;
- Drive cost savings and lower waste under the FORCE programme (Focus On Reducing Cost Everywhere);
- World Class Operations Management programme within the factory focusing on operational excellence and cost reductions by improving utilisation rate of the production lines and reducing material and energy consumption.
- Investments in upgrade of safety and quality conditions and overhaul of part of the production lines.

To mitigate part of the external headwinds (commodity prices, weakening of the Ringgit), selective price increases have been carried out through the year.

OPERATING ACTIVITIES REVIEW

Weak but improving Consumer Sentiments

Coming from a depressed 2015, consumer sentiment improved in 2016 and further improved in 2017, but remains at a pessimistic level and the second lowest in South East Asia.

In order to address this adverse position, the Company took steps to ensure availability of choices for our consumers in the form of product variety and different pack sizes, to remind consumers of the importance of having dairy in their diet and to enhance shoppers' activities, focusing on the goodness of milk and also fun in Dairy nutrition for Malaysian families.

Management Discussion & Analysis

Global Dairy Conditions

During the year 2017, the global dairy prices especially for milk fat saw an increase driven by an increase in global demand. The demand for milk fat solids has increased in value-added dairy products such as cheese and cream, particularly in Asian and US markets. At the same time lower supply from both the European Union and New Zealand.

FINANCIAL INSIGHTS

Review of Company Revenue

In 2017, the Company realised a 2.5% business growth in revenue. The increase in the Company's revenue was driven by the continuing focus on three main categories: Dutch Lady Growing Up Milk Products, Friso Growing Up Milk Products and Dutch Lady flavoured and unflavoured liquid milk. Part of the business growth was offset by an increase in provision of RM9.0 million following accounting alignment with stricter Group Policy. Including this increase of provision, revenue grew with 1.6% from RM1,047.7 million in 2016 to RM1,064.5 million in 2017.

Review of Financial Highlights

Profit before tax is at an index 80 versus previous year; of RM198.0 million in 2016 to RM157.5 million in 2017. The decline in profit was mainly driven by higher input cost following an increase in dairy costs and weakening of the Ringgit, and the increase in provision following accounting alignment with stricter Group Policy.

During the year 2017, the global dairy prices especially for milk fat solids saw an increase driven by improvement in global demand. A substantial amount of the Company's dairy raw materials was transacted in US Dollar, and the weakening of the Ringgit amplified the pressure on profitability.

Cash and Bank Balances

As at 31 December 2017, the Company's cash and bank balances amounted to RM61.3 million compared to RM213.6 million in the last financial year. The decline in cash is due to high dividend payments to circulate part of the excess cash to the shareholders, and adequate working capital management requirements.

Working capital management balancing were carried out due to:

- Higher Accounts Receivables: higher share of sales in the last month of the year to customers not on financing programme;
- Lower Accounts Payables: following lower dairy purchases towards the end of year and normalised levels of accrued expenses.

The excess cash, other than for working capital purposes, was transferred to short term fixed deposits. The deposits were placed with licensed financial institutions, bearing interest at an average rate of 3.58% during the financial year of 2017.

The Company does not have any drawdown of banking facilities.

Overall the solvency of the company is healthy at 31.4% (Equity over Assets minus cash).

Dividends

For the financial year in review, the Company paid to its shareholders a total of RM140.8 million in interim dividends as both standard and interim dividends and RM38.4 million as a one-time extraordinary interim dividend.

Currency fluctuations

Throughout 2017, dairy raw material prices fluctuated together with the forex movements. To manage this accordingly, the Company has in place hedging policies.

RISKS & EXPOSURE

Dutch Lady Malaysia is sensitive to various financial risks such as credit risk, interest rate risk, liquidity risk and currency risk. The aim of the general risk policy is to enable financial risk to be identified, analysed and when necessary, mitigated in order to prevent negative financial results.

Financial Management and Treasury Policy

The Company adopted certain policies on financial risk management for different risk exposures. During the year, the Company entered into US Dollar forward exchange contracts to manage the foreign currency exposures arising from the Company's receivables and payables denominated in currencies other than the functional currency of the Company. The forward exchange contracts have maturities of less than one year after the end of the financial year end.

- **Credit Risk**

The Company has adopted a policy of only dealing with creditworthy customers, based on careful evaluation of the customers' financial condition and credit history, as a means of mitigating the risk of financial loss from defaults of payments. The Company also maintains a large number of customers so as not to limit high credit concentration in a single customer.

The Company's credit risk is also mitigated by an arrangement made with a licensed financial institution which enables selected trade customers to pay goods invoiced through a corporate purchasing card issued by the financial institution. The Company has also set in place a credit monitoring policy and procedure in respect of its other trade customers. The Company will continue to increase its number of customers under this arrangement to minimise credit risk.

- **Liquidity Risk**

The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due. The Company's exposure to liquidity risk arises principally from both trade and other payables.

- **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Company's financial position or cash flows. During the financial year under review, dairy raw material prices increased compared to the previous financial year.

- **Currency Risk**

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than functional currency of the Company. Primarily, the currencies giving rise to this risk are US Dollar and Euro that contributes to 70% of the total exposure.

During the financial year 2017 under review, foreign currency exchange rates were unfavourable compared to the previous financial year.

- **Interest Rate Risk**

The Company is not exposed to a risk of change in cash flow due to changes in interest rates as the Company has no borrowing at the financial year end of 2017. The Company places short term deposits with licensed financial institutions which are not significantly exposed to risk of changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

CAPITAL

Capital Equity & Structure

The Company's paid and issued capital consists of 64,000,000 ordinary shares, and a current market price at RM62.0 per share bringing with it a market capitalisation value of RM3.968 million as at 31 December 2017.

Charge on Assets

As at 31 December 2017, the Company has not pledged any assets to any financial institutions.

Contingent Liabilities

As at 31 December 2017, the Company has no material contingent liabilities.

Operating Leases

As at 31 December 2017, the Company has operating leases for its equipment and premises. The details of operating leases are disclosed in note 21 to the audited financial statements for the financial year ended 2017.

OUTLOOK

The Outlook for 2018 remains challenging, as the market will be impacted by various domestic and global uncertainties and consumer sentiment is still low. We recognise the importance of continuously investing to build our brands and its quality offerings with winning market execution to win the hearts of our Malaysian consumers. At the same time the Company will continue to put efforts to improve operational efficiency to stay agile and adapt to macro-economic headwinds.

Over the long term, the outlook for Dutch Lady Malaysia remains positive due to the strength of its brands and the increasing need and recognition of the goodness and nutritional value of milk and its complementing dairy products amongst Malaysians.



www.smartmoments.com.my

Compare to previous formulated milk powder for children formulation (Year 2009). 4 Step Nutri Plan includes Dutch Lady Curious, Explore, Create formulated milk powder for children.



Step by Step, Together!

Dutch Lady Nutri Plan with 5X DHA complements parents' role in bringing up healthy children with proper nutrition that continuously supports a child's developmental milestones and learning. With our carefully planned nutritional programme, parents can stay focused on guiding their children's future development and learning achievements at school, in the family and life in general.



4-STEP NUTRI PLAN

Statement of Corporate Governance

The Board of Directors ("Board") is pleased to report to shareholders the manner in which the Company has applied most of the principles and practices as set out in the Malaysian Code on Corporate Governance 2017 (the Code) pursuant to Paragraph 15.25 of the Main Market Listing Requirements (the Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities).

Details of the application of the principles of the Code are found in the Corporate Governance Report which can be found at the Company's website at www.dutchlady.com.my.

The Code is based on three key principles of good corporate governance which are:

- a) Board leadership and effectiveness;
- b) Effective audit and risk management; and
- c) Integrity in corporate reporting and meaningful relationship with stakeholders.

This report seeks to present an overview of how these key principles are applied.

COMPLIANCE WITH THE CODE

The Board considers that the Company has complied with the provisions and applied the main practices of the Code for the whole of the financial year ended 31 December 2017, except for:

- Practice 4.1 (The Board comprises a majority of Independent Directors)
- Practice 4.2 (The Board should seek shareholders' approval through a two-tier voting process to retain the independent director after twelve years)
- Practice 4.5 (The Board must have at least 30% women Directors)
- Practice 5.1 (The Board of large company engages independent experts periodically to facilitate the Board evaluation)
- Practice 7.2 (The Board discloses on a named basis the top five senior management's remuneration in bands of RM50,000)
- Practice 11.2 (Large company is encouraged to adopt integrated reporting)

The relevant explanations for the deviations are further disclosed in the appropriate sections below.

BOARD LEADERSHIP AND EFFECTIVENESS

BOARD – STRATEGY & SUPERVISORY

The Board acknowledges its role and key responsibilities in providing entrepreneurial leadership, approving the strategic plans, overseeing the Company's business affairs and management effectiveness.

Together with the Managing Director who has intimate industry knowledge of the Company's business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities.

In carrying out its fiduciary duty, the Board have periodic meetings with the management of the Company in order for the management to update the Board on the performance of the business and to discuss the challenges the Company is facing in its business and operations. These meetings are normally carried out on a quarterly basis where the management will present the performance and results of the business of the Company benchmarking against the approved annual budget. In 2017, the management and Board also discussed topics such as market development, raw material cost increases and how to mitigate identified risks, including enhancing safety, overall productivity and quality issues.

Management reports presented to the Board would include the following information:

- Business initiatives and financial performance.
- Company Marketing & Sales plan and activities.
- Market developments and Consumer trends.
- Industry Challenges and Opportunities.
- Human resources, health and safety, environmental, legal and regulatory changes.
- Any latest development in the corporate, risk and regulatory framework affecting the Royal FrieslandCampina ("RFC") Group of Companies.

During the financial year, the Board met 4 times, whereat it deliberated and considered a variety of matters including the Company's financial results, the business plan and direction of the Company. Reviews and feedbacks from the quarterly Board meetings are important to serve as inputs to the annual budget planning undertaken by Company Management. In the month of November 2017, Management presented the Budget for financial year ending 31 December 2018 for Board's approval for implementation.

The attendance of the directors at the Board Meetings is set out on page 32 of the Annual Report.

CHAIRMAN OF THE BOARD

The Company is led by Dato' Zainal Abidin bin Putih, an Independent and Non-Executive Director. Dato' Zainal is a respected Chairman who is known to always voice his views on any issues in an objective manner. He chairs the Board meetings with a spirit of inclusiveness by encouraging discussions and eliciting the views of all his board members. The Chairman is involved in the preparation of the agenda of the Board meetings where he will discuss the agenda with the Company Secretary on matters to be included before the agenda is distributed.

The roles of the Chairman and Managing Director are separate and each has a clearly accepted division of responsibilities. The Managing Director is primarily responsible for the day to day management of the business and operations of the Company. On 1st January 2018, Mr. Tarang Gupta replaced Ms. Saw Chooi Lee as the Managing Director of the Company.

SCHEDULE OF MATTERS RESERVED FOR THE BOARD

The Board reserves full decision-making powers on the following primary matters:

- Interim and annual results;
- Sustainability agenda and risk management framework;
- Strategic plan approval and material corporate exercise or financial restructuring;
- Succession planning of the Board and Senior Management;
- Conflict of interest issues relating to substantial shareholder or a Director;
- Material acquisitions and disposals of undertakings and properties not in the ordinary course of business;
- Declaration of dividends and Directors' fees; and
- Investor relations and shareholder communication policy.

QUALIFIED COMPANY SECRETARY

The Board is supported by a qualified Company Secretary who is a Chartered Secretary. The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, Board's policies and procedures and compliance with the relevant regulatory requirements, codes or guidance and legislations.

The Company Secretary organises and attends all Board and Board Committee Meetings and ensures that Board Meeting procedures are followed and that the Company's statutory records are maintained accordingly at the registered office of the Company.

The Company Secretary updates the Board on all new relevant regulatory requirements including those issued by Bursa Securities or the Securities Commission. In August 2017, the Company Secretary presented to the Board the Code issued by Securities Commission Malaysia on 26 April, 2017 and duly highlighted compliance deviations with the current practices of the Company.

Each year, the Company Secretary organises the Annual General Meeting with the relevant departments in the Company.

On 10 September 2017, the previous Company Secretary resigned and was replaced with two (2) qualified Company Secretaries.

MEETING MATERIALS

Directors have access to timely and accurate information within the Company, which allows them to discharge their duties effectively and efficiently. For board meetings, the agenda and board papers are distributed at least seven days in advance to enable Directors to have sufficient time to review the board papers and to obtain further explanation or clarification to facilitate the decision-making process.

All proceedings of the Board and the Board Committees are recorded by the Company Secretary and signed by the Chairman of the meetings.

BOARD CHARTER

The Board has adopted a Board Charter, which sets out the Board's strategic intent and outlines the Board's roles and responsibilities, the vision, mission, shared values and principles, as well as the policies and strategic development of the Company. The Charter also serves as a source of reference and primary induction literature, providing insights to new Board members.

Statement of Corporate Governance

The Board Charter specifies clearly the roles and responsibilities of the Board, Board Committees, individual directors and management.

The Charter will periodically be reviewed and updated in accordance with the needs of the Company and any new regulations that may have an impact on the discharge of the Board's responsibilities. The Charter is available for reference at the Company's website at www.dutchlady.com.my.

ETHICAL STANDARDS

In discharging its responsibilities, the Board is guided by the RFC's Compass for good business conduct ("Compass"). Compass plays an important role in the management of compliance risks and sets out the values, principles and guidelines as to how the Company conducts its business to ensure integrity, transparency and accountability. Compass has, under its purview, underlying policies which include Doing Honest Business and Fair Competition policies, all of which are embedded in the Company's working culture and encapsulated in the Company's Employee's handbook.

Under Compass, employees and third party stakeholders have access to the Speak-Up Procedure, which serves as an avenue for employees and third party stakeholders to voice out their concerns on matters relating to Compass. The Speak-Up Procedure clearly sets out a well-defined process upon which Compass-related matters can be raised in confidence and in good faith.

Compass and its underlying policies are supported by a comprehensive communication and training platform for all employees.

BOARD COMPOSITION

As at the date of this statement, the Board comprises of seven directors; three Non-Independent Non-Executive Directors, three Independent Non-Executive Directors and one Executive Director within the meaning of Paragraph 1.01 of the Listing Requirements.

The Board acknowledges the importance of gender, age, nationality, ethnicity and socio-economic background diversity and recognises the benefits that it can bring. The Nomination Committee considers diversity generally when making appropriate appointments to the Board, taking into account relevant skills, age, experience, knowledge, personality and gender.

The Board also recognises the importance of gender diversity hence it encourages the management to ensure a balanced female representation in its workforce. Accordingly the Company has a non-discrimination policy as stated in RFC's Compass.

At present, due to the recent changes in Board members, the Board does not achieve a 30% female representation. The Company's prime responsibility, however, is the strength of the Board and the overriding aim in any new appointments must always be to select the best candidate available. However, the Company has gender diversity in its management team with over 60% female representation.

The appointment of new Directors is undertaken by the Board as a whole. The Nomination Committee recommends candidates suitable for appointment to the Board, and the final endorsement lies with the entire Board to ensure the required mix of skills, experience and expertise of members of the Board are sufficient to address the issues affecting the Company. In its deliberations, the Board is required to take into account the integrity, expertise and experience of the proposed candidate. In identifying candidates for appointment of Directors, the Board may utilise independent sources in addition to considering recommendations from existing Board members, management or major shareholders. The Nomination Committee will also consider whether such candidate meets the requirements for independence as defined under the Listing Requirements. The recent Board appointments namely Mr. Tarang Gupta and Mr. Bernardus Hermannus Maria Kodden were candidates recommended by its major shareholders, RFC.

To ensure the continuous development of the members of the Board, they are encouraged to attend trainings both internal and external. For the year under review, all Directors attended briefings and trainings to enable them to effectively discharge their duties. All members of the Board (except for Mr. Tarang Gupta and Mr. Bernardus Hermannus Maria Kodden who were appointed effective 1 Jan 2018 and Dato' Dr. Rosini Binti Alias who was appointed on 16 March 2018) have attended and successfully completed the Mandatory Accreditation Programme.

Particulars of the development and training programmes attended by Directors are as set out on pages 39 to 42 of the Annual Report.

BOARD EVALUATION

The Nomination Committee's responsibility includes the assessment of the effectiveness of the Board as a whole and the individual directors, examination of 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.

This annual assessment was conducted in February 2018 internally via questionnaires, which was led by the Chairman of the Nomination Committee with the support of the Company Secretaries. The assessment was conducted on the Board, the Nomination Committee, the Audit Committee, the Managing Director and on each other through a peer evaluation.

Below are the significant findings from the evaluation carried out:

- a) The Audit Committee was assessed by the members of the Nomination Committee and the members of the Nomination Committee agreed to the effectiveness of the Audit Committee. The following comments were made and noted:
 - The Audit Committee had carried out its function and duly performed its duty according to its Terms of Reference during the financial year ended 31 December 2017.
- b) The members of the Board undertook a self-assessment of the effectiveness of the Board of Directors. All members of the Board agreed to the effectiveness of the Board as a whole. The following comments were made and noted:
 - The Board practices a transparent and open approach to all Board matters with good deliberation on all essential agenda items and risk issues.
 - Mr. Boey Tak Kong commented that as part of his continuous professional development programme, he will like to be exposed to updates on corporate tax changes and new public rulings. The Board consisted of competent individuals with various skills, experiences and qualifications that allowed for active participation when deliberating matters related to the Company.
- c) The Nomination Committee was assessed by the members of the Board who were not members of the Nomination Committee and such members of the Board agreed to the effectiveness of the Nomination Committee.
- d) Ms. Saw Chooi Lee's performance as the Company's Managing Director for the year 2017 was assessed by the rest of the members of the Board of Directors, who agreed to her effectiveness in implementing the policies set by the Board and in managing the Company's operations.
- e) Individual directors were assessed by their peers and in general, it was agreed that the performance and contribution of each individual Director was of the standard expected from a director. The following were noted:
 - Dato' Zainal Abidin bin Putih, as Chairman of the Board had always maintained a very participative Board environment during Board discussions and deliberations, with good control over the AGM process for effective shareholders' engagement.
 - Mr. Boey Tak Kong is a consultant in the area of corporate and regulatory issues, especially in relation to the Listing Requirements, MCCG 2017 and the Companies Act, 2016 which are useful to the Company. Mr. Boey brings invaluable suggestions and observations throughout the Board's deliberations.
 - Mr. Foo Swee Leng played a critical role at the Board level in aligning the Management team's marketing and operational efforts to gain market share by highlighting market sentiments and product long-term strategy for sustainability.
 - Dato' Dr. Mhd Nordin had carried out his duties well and actively participated in events involving Government Ministries and Agencies in promotion of the Company's interest.
 - Ms. Saw Chooi Lee brings knowledge and perspective to the deliberation of the Board, including up-to-date issues for the Board's information and discussion. Ms Saw also provides useful market benchmarking and insights for positioning competitive market initiatives

Statement of Corporate Governance

- Mr. Piet Hilarides displayed good leadership in sharing with the Board the parent company's marketing initiatives and commercial goals moving forward. He also assisted in the building and motivation of the local management team.
- Ms. Jaska Marianne de Bakker advised the Board on the streamlining of the parent company's financial reporting requirements after the shared service implementation across the region and on treasury administration priorities.

Overall, the Board members actively participated at Board deliberations in the best interest of the Company.

Based on the results of the above mentioned assessments, the Nomination Committee was satisfied as to the effectiveness of the Board as a whole and the Committees

of the Board. The Nomination Committee also unanimously agreed that the performance and contribution of each Board member was of a standard expected from a director.

The Board shall appoint an external independent consultant to facilitate the Board evaluation process in the financial year 2018.

BOARD AND COMMITTEES ATTENDANCE

Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively, including adequate time to prepare for the Board and Committee meetings and periodic site visits.

Attendance at Board and Committee meetings during the financial year 2017 is set out in the table below:

Number of meetings held in the year	Board	Audit Committee	Nomination Committee	Remuneration Committee
Dato' Zainal Abidin bin Putih	4/4	4/4	2/2	
Dato' Dr. Mhd Nordin bin Mohd Nor	4/4	4/4		1/1
Mr. Boey Tak Kong	4/4	4/4	2/2	
Mr. Foo Swee Leng	4/4	4/4	2/2	
Mr. Piet Johannes Hilarides	3/4			
Ms. Jaska Marianne de Bakker	4/4			1/1
Ms. Saw Chooi Lee	4/4			1/1

NOMINATION COMMITTEE

The Nomination Committee comprises three directors, whom are all non-executive directors. The members of the Nomination Committee are:

1. Mr. Foo Swee Leng
(Independent Non-Executive Director)
Chairman
2. Dato' Zainal Abidin bin Putih
(Independent Non-Executive Director)
3. Mr. Boey Tak Kong
(Independent Non-Executive Director)

The activities of the Nomination Committee during the financial year include the following:



The Nomination Committee meets as required. Two meetings were held during the financial year i.e on 28 February 2017 and 28 November 2017. All recommendations of the Nomination Committee are subject to the endorsement of the Board.

REMUNERATION – POLICIES AND PROCEDURES

The policy for Directors' remuneration is to provide a remuneration package needed to attract, retain and motivate directors of quality required to supervise and/or manage the business of the Company.

The remuneration for Executive Directors and senior management of the Company are based on the human resource policies and procedures of the RFC Group. The Company follows the performance appraisal system and compensation and benefits scheme of the RFC Group. For Executive Directors of the Company, corporate and individual performance are rewarded through the use of an integrated pay benefits and bonus structure. Market competitiveness, business results and individual performance are also considered by the RFC Group in evaluating the Executive Directors' remuneration. The Executive Directors are not paid meeting attendance allowance or directors' fees. The annual performance appraisal was carried out in the first quarter of 2018 for the performance over 2017.

The Non-Executive Directors are paid fixed annual directors fees as members of the Board. Non-Executive Directors are also paid an attendance allowance for each Board or Committee meeting that they attend. The Chairman of the Board Committees receives a Board Committee Chairman allowance. In addition thereto, the members of the Audit Committee also receive committee allowance. These are approved by shareholders at the Annual General Meeting.

The Remuneration Committee reviews the fees annually by benchmarking with other companies in the same industry and has also taken into account the responsibilities and duties of the directors.

The policies on remuneration of the Board and senior management are found on the Company's website.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three directors, two of whom are independent non-executive directors. The members of the Remuneration Committee are:

1. Dato' Zainal Abidin bin Putih
(Independent Non-Executive Director)
Chairman
(Appointed on 27 Feb 2018)
2. Ms. Saw Chooi Lee
(Non-Independent Non-Executive Director)
3. Mr. Boey Tak Kong
(Independent Non-Executive Director)
(Appointed on 27 Feb 2018)

Statement of Corporate Governance

Dato' Zainal Abidin bin Putih replaced Dato' Dr. Mhd. Nordin bin Mohd. Nor as Chairman on the Remuneration Committee on 27 Feb 2018.

Ms. Jaska Marianne de Bakker resigned from the Board and the Remuneration Committee on 31 Dec 2017. She was replaced by Mr. Boey Tak Kong as a member of the Remuneration Committee on 27 Feb 2018.

The determination of Non-Executive Directors' fees is a matter deliberated by the Remuneration Committee and approved by the Board as a whole. The Non-Executive Directors concerned abstain from the discussion of their own remuneration. The Board as a whole recommends the remuneration payable to the Non-Executive Directors and any changes thereof to the shareholders for approval at the AGM.

DIRECTORS & TOP FIVE (5) SENIOR MANAGEMENT REMUNERATION

The aggregate remuneration of Directors of the Company for the financial year ended 31 December 2017 is as follows:

	Executive Directors RM'000	Non-Executive Directors RM'000
Directors' fees		276
Meeting & Committee allowances		74
Salaries and other emoluments	3,663	
Benefits in kind	178	

The details of the total remuneration of the directors on a named basis for the financial year ended 31 December 2017 are as follows:

Name	Directors' fees (RM'000)	Meeting & Committee allowances (RM'000)	Salaries and other emoluments (RM'000)	Benefits in kind (RM'000)	Total (RM'000)
Dato' Zainal Abidin bin Putih	102	17			119
Dato' Dr. Mhd Nordin bin Mhd Nor	58	19			77
Mr. Boey Tak Kong	58	19			77
Mr. Foo Swee Leng	58	19			77
Ms. Saw Chooi Lee			3,663	178	3,841

Note: No Directors' fee and benefits are paid to both Mr. Piet Johannes Hilarides and Ms. Jaska Marianne de Bakker in lieu of the management fee paid to RFC.

While the Company notes the need for transparency in the disclosure of its key senior management remuneration, the Company is of the opinion that the disclosure of remuneration details may be detrimental to its business interests, given the competitive landscape for key personnel with the requisite knowledge, technical expertise and

working experience in the Company's business activities, where intense headhunting is a common industry challenge. Accordingly, such disclosure of specific remuneration information may give rise to recruitment and talent retention issues.

The Company further is of the view that the interest of the shareholders will not be prejudiced as a result of such non-disclosure of the Company's top five senior management personnel who are not Directors.

As for an insight on the level of remuneration paid to the top five senior management personnel, the aggregate remuneration paid for the financial year 2017 is approximately RM3.7 million.

SUSTAINABILITY

The Board embraces the need and values of sustainability and corporate responsibility into its core business drivers for growth. The policy statements and work practices are documented in the Sustainability Statement on pages 47 to 59.

EFFECTIVE AUDIT AND RISK MANAGEMENT

The Chairman of the Audit Committee is Mr. Boey Tak Kong, who is an Independent Non-Executive Director. The Audit Committee comprises of four Directors (three of whom, including the Chairman, are Independent Non-Executive Directors):

1. Mr. Boey Tak Kong
(Independent Non-Executive Director)
Chairman
2. Dato' Zainal Abidin bin Putih
(Independent Non-Executive Director)
3. Mr. Foo Swee Leng
(Independent Non-Executive Director)
4. Dato' Dr. Mhd. Nordin bin Mohd. Nor
(Non-Independent Non-Executive Director)
(Resigned on 16 Mar 2018)

The Chairman of the Audit Committee plays an active role in updating the other members on rules or standards relating to the accounting standards or corporate governance enhancement requirements.

One of the Audit Committee's key roles is to liaise with, monitor and review the findings and performance of the External Auditors. In August 2017 the Audit Committee had a meeting with Messrs. PricewaterhouseCoopers PLT ("PwC"), the External Auditors, where PwC presented the annual audit plan for FY 2017. In that meeting, PwC highlighted the key focus areas, methodology and new accounting standards. The External Auditor also briefed the

Audit Committee on their team members and the resources allocated to the Company. After discussion and deliberation, the Audit Committee approved the audit plan.

The Audit Committee places importance on ensuring the External Auditors are independent.

In addition, the terms of reference of the Audit Committee states clearly that a former key audit partner of the External Auditors shall be subject to a minimum two (2) year cooling-off period before being appointed as a member of the Audit Committee.

The Audit Committee also monitors the non-audit engagements taken up by the External Auditor to ensure that it does not prejudice the independence of the External Auditors. During the financial year, the fees incurred in respect of non-audit related matters amounted to RM20,000 for the review of the Statement on Risk Management and Internal Controls.

The Audit Committee Report for the financial year ended 31 December 2017 is contained on pages 43 to 46 of this Annual Report.

The Audit Committee's activities during the financial year are as set out on pages 44 to 45 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The Company did not have a Risk Management Committee during the financial year under review, as this role is taken up by the Audit Committee.

The Company adopts the Enterprise Risk Management programme based on the framework that was developed and issued by RFC, which is based on COSO model (a model developed by the Committee of Sponsoring Organizations of the Treadway Commission for evaluating internal controls). The programme establishes an enterprise risk assessment ("ERA") for identifying, evaluating, monitoring, reporting and managing significant business risks. The Internal Audit function also carries out activities under the ERA.

The ERA framework focuses on the Company's core business operations and it allows the Company to:

- establish clear functional responsibilities and accountabilities within the Company's structures for management of risks;
- enhance and improve corporate governance with a clear, concise and comprehensive structure for the Company;

Statement of Corporate Governance

- promote an effective risk awareness culture where risk management is an integral aspect of the Company's business plan and project portfolio; and
- ensure appropriate skills and resources are applied to risk management.

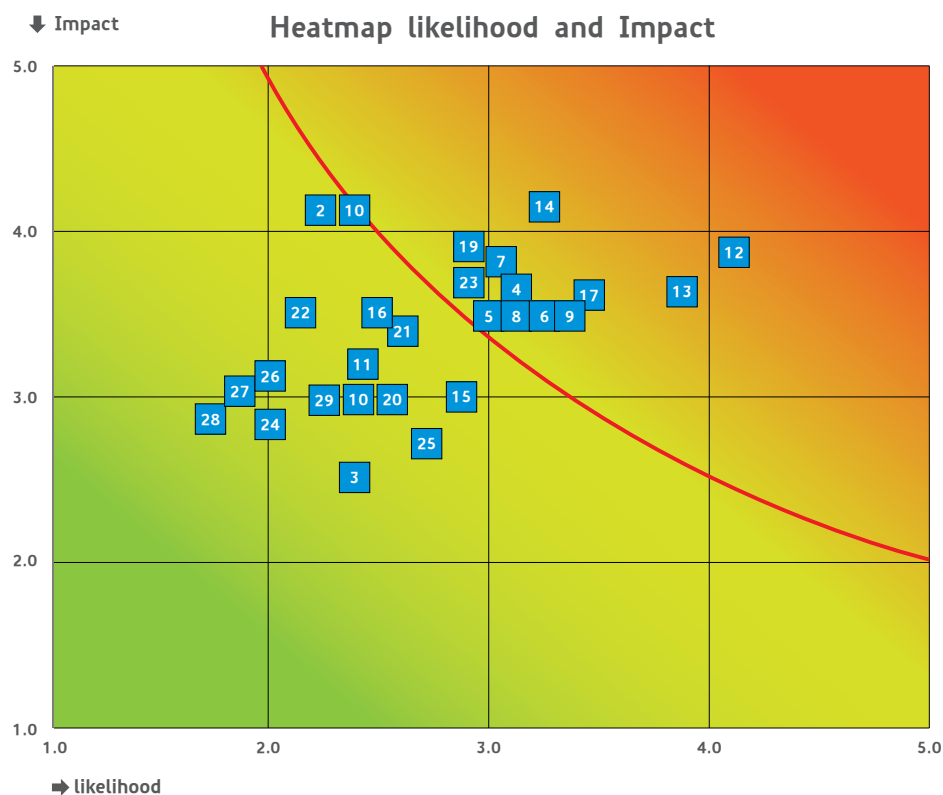
The ERA categorises the risk in the following way:

- Strategic, which are risks that affect the overall direction of the business.
- Operational, which are risks that impact the delivery of the Company's products.
- Financial, which are risks associated with financial processes and reporting.
- Compliance, which are risks associated in relation to legal, statutory and corporate governance.

The risk profile of the Company is established during risk assessment sessions facilitated by RFC. Risks identified are categorised and rated based on:

- Impact on the relevant business objectives;
- Likelihood of the risks occur; and
- Potential for improvement of the way the risk is being managed by taking into account the existing internal control and risk management measures in place.

A pre-specified on a scale of 1 to 5 risk voting is in use for the risk evaluation process. Risks are then categorised on the Risk Heat Map which maps the significance of the risks to the Company and determines the relative prioritisation and focus for risk mitigation. The outcome of the risk evaluation process is both a Risk Heat Map and a robust critical risk event listing which documents all identified business risks.



Top 12 risks:

- 12.** Political and regulatory
- 13.** Economic
- 14.** Catastrophes
- 17.** Manufacturing
- 9.** Innovation
- 6.** Competitors
- 4.** Brand Value
- 7.** Consumers
- 19.** Sourcing
- 8.** Customers
- 23.** Human resources
- 5.** Business intelligence

There are four options available when considering the most appropriate risk response actions to be taken to address the risk. Risk mitigation strategy and action plan will be drawn up once the response action is determined.

Risk Response Actions	Description
Take	Accept the risk as it is rated, with no further action and maintain the control procedures that are already in place
Treat	Take action to reduce the risk by lessening the impact. This can involve improved procedures and internal controls
Transfer	Decide to pass the risk or costs of the impact outside the organisation, through third party contracts or take out insurance to cover the costs of the impact
Terminate	Decide to eliminate the risk by terminating the activity or the pursuance of the objective that causes the risk

Management Team and internal audit team meets periodically to assess whether any conditions associated with a particular risk have changed, and to ensure that action and risk mitigation plans have been implemented. Progress and status of the mitigation action plans are presented to the Audit Committee quarterly or new critical risks are escalated immediately for deliberation.

Internal Audit

The Company has an Internal Audit function that is supported by the RFC Group's Corporate Internal Audit Department.

The Company's Internal Controls Framework is based on the Internal Control Framework ("ICF") established by RFC. ICF requires controls to be tested either quarterly, half yearly or yearly, depending on their criticality, to ensure its effectiveness, adequacy and integrity. Reporting on this to the Group is done at half year and year end and to the Audit Committee every quarter.

Internal Audit reports to the Audit Committee. During the year, the Internal Auditors had 4 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.

In February 2017, the Internal Auditors presented their annual audit plan which included the nature and scope of the internal audit. The Audit Committee when reviewing and discussing the said plan sought to ensure that the internal audit plan is aligned with the external audit plan. After discussion, the Audit Committee approved the plan.

In September 2017, the Internal Audit Manager resigned and left the Company. The Audit Committee Chairman interviewed several candidates and Miss Snowy Khoo has been appointed as the new Internal Audit Manager. Miss Snowy Khoo has over 10 years of internal and external audit experience and she is a Fellow of Association of Chartered Certified Accountants, United Kingdom.

Details of the Company's Risk Management and Internal Control is as set out on pages 60 to 63 of this Annual Report.

Statement of Corporate Governance

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

COMMUNICATION WITH STAKEHOLDERS

The Company is committed in ensuring the dissemination of relevant and material information. Strong emphasis is being placed on timely dissemination of information to its shareholders.

During the year, Management carried out a closed group briefing session for the fund managers and investment analysts, besides attending to ad-hoc written queries on the Company's performance. From time to time, scheduled conference calls are also conducted with regards to the same. The Company also posts its activities on its website www.dutchlady.com.my.

Announcements are made on a timely basis to Bursa Securities and these are made electronically to the public via Bursa Securities website at www.bursamalaysia.com as well as on the Company's website.

Investors may forward their queries to the Company in care of the Company Secretary via e-mail: finance.dept@frieslandcampina.com.

Annual Report

The Annual Report is the main channel of communication between the Company and its stakeholders. The Company's Annual Report shall adopt the format of an integrated report for financial year ending 31 December 2018, where it communicates comprehensive information of the financial results, management and discussion analysis on the operations of the Company, governance and sustainability measures and activities.

General Meeting of Shareholders

The Company's AGM is the principal forum for dialogue with individual shareholders. At the Company's AGM, which is generally well attended, shareholders are presented with an overview of the Company's performance during the year. Shareholders have direct access to the Board at the AGM 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 proposed resolutions. Shareholders are encouraged to ask questions about the resolutions being proposed and on the Company's operations in general.

The Company is committed to provide 28 days prior notice for the AGM held in 2018 onwards.

The Company's AGM in 2017 was attended by all Directors. During the year, in line with the revised Listing Requirements of Bursa Securities, for all resolutions tabled at the Company's 54th AGM were voted on poll. Leveraging on information technology for effective meeting procedures, an electronic polling system was put in place whereby all shareholders of the Company participated in the polling exercise. An independent scrutineer was appointed to validate the poll results and the decision of each resolution put to poll as well as the name of the independent scrutineer was also announced to Bursa Securities on the same day of the AGM.

KEY FOCUS

For the financial year ended 31 Dec 2017, the focus by the Board on governance was on (i) reviewing and analysing whether the current Company's governance practices meet the Code and (ii) ensuring the changes in the Boardroom complies with the laws and the candidates recommended meets the Company's needs and interest.

TRAINING PROGRAMMES ATTENDED BY DIRECTORS FOR FINANCIAL YEAR ENDED 2017

Director	Title of Training Programme	Organiser	Date
Dato' Zainal Abidin bin Putih	L&G In House Directors' Training Companies Act 2016	Land & General Berhad	8 Mar 2017
	Global Transformation Forum	PEMANDU	22 & 23 Mar 2017
	BNM Annual Report 2016 /Financial Stability & Payments Systems Report 2016 Briefing Session	Bank Negara Malaysia	23 Mar 2017
	4th BNM-FIDE Forum Annual Dialogue with Deputy Governor of BNM	FIDE Forum Collaboration with Bank Negara Malaysia	27 Mar 2017
	Compliance Conference 2017	Bank Negara Malaysia	18 May 2017
	FIDE CORE PROGRAM Module A for Insurance	FIDE / ICLIF	2 & 3 Aug 2017
	2018 CIMB Group Risk Posture Workshop for Combined Board Risk Committees	CIMB	10 Aug 2017
	CIMB Joint Audit Committees & Board Risk Committees Sharing Sessions	CIMB	17 & 18 Aug 2017
	2017 Global Symposium on Development Financial Institutions	Bank Negara Malaysia	19 Sep 2017
	Khazanah Megatrends Forum 2017 -Cerebrum X Algorithm Building True Value in a Post-Truth World	Khazanah Nasional Berhad	2 & 3 Oct 2017
	2017 CIMB Group Annual Management Summit	CIMB	17 & 18 Nov 2017
Mr. Boey Tak Kong	A New Era of Auditor Reporting: Insights for Investors	Malaysian Institute Of Accountants & Minority Shareholder Watchdog Group	31 Mar 2017
	ACSAN Roundtable on Minority Shareholders' Rights	The Malaysian Institute of Chartered Secretaries and Administrators	7 Apr 2017
	Sustainable Development Goals Business Summit	Securities Industry Development Corporation	25 May 2017
	Company Law Conference 2017	TARCIAN Alumni Association - MAICSA	7 Jun 2017
	Responsible Investment Forum	Bursa Malaysia & Securities Commission Malaysia	14 Jul 2017

Statement of Corporate Governance

Director	Title of Training Programme	Organiser	Date
Mr. Boey Tak Kong (cont'd)	Board Excellence: How to Engage and Enthuse Beyond Compliance with Sustainability	Bursa Malaysia & MINDA	17 Jul 2017
	1) The Malaysian Code On Corporate Governance 2017 – Key Changes & Impact To The Board & Management 2) Overview of Key Changes In The Companies Act 2016 – How Board & Management Are Impacted	Coalition For Business Integrity Berhad	25 Jul 2017
	An Overview of Industry 4.0 Transformation Accelerated Action Plan	Penang Skills Development Centre	27 Jul 2017
	Face The Media – Make It Or Break It/ Media Communication	Censoft Holdings Berhad	28 Aug 2017
	Sustainability Reporting	KPMG	5 Oct 2017
	MCCG Dialogue With Securities Commission	MAICSA	12 Oct 2017
	Leading In A Volatile, Uncertain, Complex, Ambiguous World	Bursa Malaysia & The Iclif Leadership and Governance Centre	13 Oct 2017
	Case Study Workshop for Independent Directors Rethinking – Independent Directors: A New Frontier	Bursa Malaysia & SIDC	16 Oct 2017
	Effective Internal Audit Function for Audit Committee Workshop	Bursa Malaysia & IIA Malaysia	20 Oct 2017
	Enhance Quality of Management Discussion & Analysis for Chief Executive Officers & Chief Financial Officers of Listed Issuers	Bursa Malaysia	23 Oct 2017
	Budget 2018 & Tax Audits and Controversies Seminar	Wong & Partners	2 Nov 2017
	Integrating an Innovation Mindset with Effective Governance	Bursa Malaysia & MINDA	07 Nov 2017
	MIA – SC Workshop on Malaysian Code on Corporate Governance	MIA	17 Nov 2017
Piet Johannes Hilarides	RFC Leadership Days	Royal FrieslandCampina NV	19 – 21 Jun 2017
	RFC Leadership Days	Royal FrieslandCampina NV	25 – 26 Sep 2017

Director	Title of Training Programme	Organiser	Date
Saw Chooi Lee	CPA Leadership Meeting, Vietnam	Royal FrieslandCampina N.V.	5 – 8 Feb 2017
	CPA Leadership Meeting, Manila	Royal FrieslandCampina N.V.	30 May – 2 Jun 2017
	FC Leadership Days, Netherlands	Royal FrieslandCampina N.V.	17 Jun 2017
	Crisis management Training by CPA CA Dir	Royal FrieslandCampina N.V.	28 Jul 2017
	FC Nourishing Leadership Training, Manila	Royal FrieslandCampina N.V.	23 – 25 Aug 2017
	FC Leadership Days, Netherlands	Royal FrieslandCampina N.V.	23 –26 Sep 2017
Foo Swee Leng	None (unable to attend any trainings as wife was taken ill)		
Dato' Dr. Mhd Nordin bin Mohd Nor	Value Creation : A Customer Focused Orientation	PNB Investment Institute	1 Mar 2017
	Updates on : The New Companies Act 2016, The Key issues and Potential Pitfalls and Disclosure of Interest by Nominee Directors	PNB Investment Institute	12 May 2017
	IMD Seminar : The Future of FinTEch/Digital Disruption	PNB Investment Institute	24 May 2017
	Economic Forum: The Future Globalization and Liberalization	PNB Investment Institute	12 Sep 2017
	Talent For Value Workshop	PNB Investment Institute	5 Oct 2017

Statement of Corporate Governance

Director	Title of Training Programme	Organiser	Date
Jaska Marianne De Bakker	Finance Council	Royal FrieslandCampina N.V.	30 – 31 Mar 2017
	Mandatory Accreditation Programme (MAP)	BURSA / The Iclif Leadership and Governance Centre	6 – 7 Apr 2017
	Dutcham CFO Breakfast Meeting	Dutcham	5 May 2017
	Deloitte CFO Onboarding	Deloitte	6 – 7 Jun 2017
	RFC Leadership Days	Royal FrieslandCampina N.V.	19 – 21 Jun 2017
	Deloitte CFO Lab	Deloitte	12 Jul 2017
	Deloitte CFO Conference	Deloitte	20 – 21 Jul 2017
	RFC Leadership Days	Royal FrieslandCampina N.V.	25 – 26 Sep 2017

Audit Committee Report

The Board of Directors is pleased to present the report on the Audit Committee for the financial year ended 31 December 2017, pursuant to Paragraph 15.15 of the Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities).

1. MEMBERSHIP AND MEETING OF THE AUDIT COMMITTEE

Members of the Audit Committee are:

1. Mr. Boey Tak Kong
(Independent, Non-Executive Director) – Chairman
2. Dato' Zainal Abidin bin Putih
(Independent, Non-Executive Director)
3. Mr. Foo Swee Leng
(Independent, Non-Executive Director)
4. Dato Dr. Mhd. Nordin bin Mohd. Nor
(Non-Independent Non-Executive Director)
(Resigned on 16 March 2018)

Mr. Boey Tak Kong and Dato' Zainal Abidin bin Putih, being members of the Malaysian Institute of Accountants, fulfil the requirement of Paragraph 15.09(1)(c) of the Listing Requirements of Bursa Securities.

The Audit Committee held four meetings during the financial year ended 31 December 2017. Details of attendance of the Audit Committee members are as follows:

Name of Members	Total Meetings Attended
Mr. Boey Tak Kong	4 out of 4
Dato' Zainal Abidin bin Putih	4 out of 4
Mr. Foo Swee Leng	4 out of 4
Dato' Dr. Mhd. Nordin bin Mohd Nor	4 out of 4

At the invitation of the Audit Committee, the Managing Director, relevant Management Team members, External and Internal Auditors attended the Audit Committee meetings and presented their reports on financial results, audit findings and other matters for the information and/or approval of the Audit Committee.

The Company Secretary acts as Secretary to the Audit Committee and shall circulate the minutes of meetings of the Audit 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 Audit Committee before each Meeting at which the said reports are tabled. The Audit Committee Chairman later tabled to the Board relevant and salient issues with the recommendation(s) of the Audit Committee for Board's consideration and approval.

2. SUMMARY OF KEY SCOPE OF RESPONSIBILITIES

A majority independent Audit Committee assists and supports the Board's responsibility to oversee the Company's operations in the following manner:

- Overseeing the financial reporting process and integrity of the Company's financial statements.
- Evaluating the independence of the External Auditors.
- Assessing the performance and process of the Company's Internal Audit function effectiveness.
- Reviewing the Company's practices, processes and effectiveness of the risk management system.
- Examining any related party transactions and conflict of interest situations.
- Conducting annual assessment on the performance of the Company's External Auditors.
- Reviewing any significant reporting judgements made by management and how these matters are addressed.

Audit Committee Report

3. TERMS OF REFERENCE

The Audit Committee terms of reference is made available on the Company's corporate website at www.dutchlady.com.my

4. SUMMARY OF ACTIVITIES

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

A summary of its key activities carried out by the Audit Committee during the financial year is listed below:

(a) Financial Reporting and compliance

The Company's quarterly and annual financial statements as well as announcements made to Bursa Securities were reviewed by the Audit Committee before submission to the Board for its subsequent approval. In doing so, the Audit Committee deliberated and focussed on changes in major accounting policies and practices as well as any adjustments and/or issues affecting audit related matters to ensure compliance with Main Market Listing Requirements, MASB and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements.

As part of their accounting oversight duties, the Audit Committee also reviews the external auditors' annual and interim audit reports, together with accompanying Management responses.

(b) Risk management and internal controls

The Audit Committee took note of the risk management activities related to the Company as implemented by the RFC Internal Control Framework and the Enterprise Risk Management programme.

During the year under review, the Audit Committee had four meetings with the Internal Auditors. During the engagement, the Audit Committee discussed the results arising from the Internal Audit activities, and recommendations by the Internal and External Auditors on the controls environment and weaknesses, and ensured that corrective actions were taken by Management.

(c) Going Concern Assessment

The Audit Committee reviewed the going concern basis for preparing the Company's financial statements, including the assumptions underlying the going concern statement and the period of assessment.

(d) External audit

Throughout the financial year, the Audit Committee had three meetings with the External Auditors without the presence of Management. The Audit Committee is pleased to report that there was no significant matter of disagreement that arose between the External Auditors and Management.

To reinforce the independence and objectivity of the External Auditors, the Audit Committee reviewed all non-audit services performed by the External Auditors.

During the financial year, the fees incurred in respect of non-audit related matters amounted to RM20,000 for the Review of the Statement on Risk Management and Internal Controls.

The Audit Committee reviewed the annual audit plan in view of the changes to the financial standards and Listing Requirements relating to financial reporting disclosures.

(e) Other Matters

During the financial year, the Audit Committee also carried out the following activities:

- reviewed the Company's dividend proposal.
- considered the quantum, timing and cash flow of dividend payments, and recommended the same to the Board for approval.
- reviewed the related party transactions, and any conflict of interest situations during the year.
- reviewed the Circular on Proposed New and Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and recommended the same to the Board for shareholders' approval.
- reviewed the Company's annual report prior to submission to the Board for their perusal and approval, to ensure compliance in accordance with the provisions of the Companies Act 2016 and the applicable approved accounting standards as per MASB Standards.
- discussed with the External Auditors any issues arising from the audit (in the absence of the Management).

5. KEY AUDIT MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN RELATION TO THE FYE 2017 ACCOUNTS:

(a) Use of estimates in revenue recognition arising from rebates and discounts given to customers

The Company's revenue is recognised net of rebates and discounts. Recognition of rebates and discounts is based on the expected entitlement of the Company's customers earned up to the reporting date subject to their respective trading and promotions run. The Company applies estimates for its conditional rebates and promotional discounts with its customers, whereby the amount payable is based on conditions achieved as set out in their respective trading agreements.

The Audit Committee reviewed and agreed with Management's treatment of the revenue recognition arising from rebates and discounts given to customers.

6. INTERNAL AUDIT FUNCTION

The Company has an Internal Audit function that reports to the Audit Committee.

The Internal Auditors are empowered with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Company's records, physical properties, to carrying out any internal audit or investigation engagement.

The Internal Audit function is independent of the activities of other operating departments and undertakes to review all processes of the Company and its relationship with third parties. It also carries out risk management activities under the Enterprise Risk Management programme developed by the RFC Group. The programme incorporates a process to facilitate risk identification, assessment, reporting as well as review and mitigation risks that affect the achievement of the Company's objectives and policies.

During the financial year, the Internal Auditors undertook the following activities:

- (a) prepared the internal audit plan for the year, which is reviewed and approved annually by the Audit Committee, and updated where necessary by the Audit Committee.
- (b) completed a total of 20 audit engagements as per the approved 2017 audit plan and 1 management requests.
- (c) prepared the internal audit programme based on the internal audit plan, for each activity or process to be audited.
- (d) maintained the Company's Internal Control Framework, including periodically reviewing controls, organising self-assessments and ensured effectiveness of the system.
- (e) discussed with auditees, process owners and Management on the results of the audit for each activity or process, and the recommendations for action plan to mitigate the identified risk or control work flow improvements.

Audit Committee Report

- (f) on a quarterly basis, reviewed the Enterprise Risk Assessment updates, which enables the Company to update key risks direction, identify emerging risks and to define an adequate and practical mitigation action plan where necessary.
- (g) reported to the Audit Committee on a quarterly basis, the results from the internal audit and governance issues identified together with Management Team's response and action plans.
- (h) followed up on all the action plans agreed from the previous internal audit reports to ensure that all matters arising are adequately addressed by the Management.

Costs amounting to RM395,801 were incurred in relation to the internal audit function for the financial year ended 31 December 2017.

7. ANNUAL REVIEW AND PERFORMANCE EVALUATION

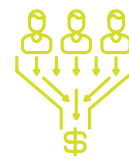
As required by its Terms of Reference, the Audit Committee conducted an annual performance evaluation in an effort to enhance and improve its processes of the control environment.

The Audit Committee's responsibility is to monitor and review the practices and processes performed by management and the external auditors. It is not the Audit Committee's duty or responsibility to conduct auditing or accounting reviews. The Audit Committee members are not employees of the Company. Therefore, the Audit Committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity, in conformity with approved accounting principles generally accepted in Malaysia and on the representations of the External Auditors included in its reports on the Company's financial statements and internal control over financial reporting.

Type Of Activity spent by the Audit Committee for FYE 2017 % Of Time Spent

Risks and internal controls

18%



Financial reporting and Budget

30%



Internal Audit
25%

External Audit
20%



Other

7%



Sustainability Statement

Sustainability and responsibility remains a key pillar of our business strategy. As a leading dairy company, we are committed to demonstrate responsible corporate conduct across all aspects of our operations.

This Sustainability Statement was prepared in accordance with the guidelines set out in the Main Market Listing Requirements relating to Sustainability Statement in Annual Report of Listed Issuers ("Guidelines") issued by Bursa Malaysia Securities Berhad and covers the Company's business operations in Malaysia for the financial year ended 31 December 2017.

CORPORATE RESPONSIBILITY STRATEGY: DAIRY WITH A PURPOSE

Our mission is to create shared value to all our stakeholders through our strategic initiatives, in line with that of our parent company, Royal FrieslandCampina N.V. ("RFC"). Based on the global theme of Nourishing by Nature, Dutch Lady Malaysia leverages on the Dutch dairy heritage and the unique global milk chain in a sustainable way. As one of the leading dairy players in Malaysia, we are committed to demonstrate responsible corporate conduct across all aspects of our operations.

Board Commitment

As the Board of Directors of a leading dairy company, we are mindful of our responsibility towards sustainability issues as part of Dutch Lady Milk Industries Berhad's (Dutch Lady Malaysia) long-term strategic plans, and we are committed towards demonstrating and practicing responsible corporate conduct in our daily business activities across all aspects of our operations. The Board has an ultimate responsibility for the Company's Sustainability Report 2017 in partnership with Management and other stakeholders to deliver the agreed goals:

BOARD OF DIRECTORS

- Oversee sustainability performance
- Approve sustainability initiatives and budget

MANAGEMENT TEAM

- Monitor and act on related risks and reports on progress
- Responsible for sustainable business policies and practices

SUSTAINABILITY TEAM

- Formulate sustainable strategy, policies and KPI goals
- Monitor, align and facilitate adherence to the sustainability policy
- Facilitate and support operating divisions to meet sustainability goals
- Conduct sustainability awareness and engagement activities
- Monthly sustainability performance reporting

OPERATING DIVISIONS

- Day-to-day management of sustainability risks and issues
- Own and ensure compliance of relevant sustainability-related policies and practices
- Record all sustainability source data

Sustainability Statement

SUSTAINABILITY DEVELOPMENT GOALS BY THE UNITED NATIONS

The United Nations has formulated 17 Sustainable Development Goals ("SDG") related to responsible production and consumption, climate, sustainable communities, health and well-being and efforts to fight poverty and starvation.



Of these 17 goals, Dutch Lady Malaysia – and our parent company, RFC – have identified six SDGs that we contribute to. They are:

2 ZERO HUNGER

Zero Hunger | End hunger, achieve food security and improve nutrition, and promote sustainable agriculture

8 DECENT WORK AND ECONOMIC GROWTH

Decent Work and Economic Growth | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

3 GOOD HEALTH AND WELL-BEING

Good Health and Well-being | Ensure healthy lives and promote well-being for all at all ages

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible Consumption and Production | Ensure sustainable consumption and production patterns

7 AFFORDABLE AND CLEAN ENERGY

Affordable and Clean Energy | Ensure access to affordable, reliable, sustainable and modern energy for all

17 PARTNERSHIPS FOR THE GOALS

Partnerships for the Goals | Strengthen the means of implementation and revitalise the global partnership for sustainable development

These six SDGs form the backbone of RFC Group's sustainability framework. It also ensures Dutch Lady Malaysia's competitive advantage in the marketplace and in building a long-term product brand value. We do so by implementing the following framework:

Focus Areas	Environmental	Social	Governance
Strategic Goals	To adopt best practice solutions through innovative quality processes	To act as catalysts for boosting community development and support systems for long-term talent pipeline	To leverage on positive growth results through our holistic and synergetic core business activities
Material Matters	• Environmental protection • Material efficiency • Energy and water consumption management • Waste, noise and effluent management	• Equal employment and employee engagement • Talent development • Community services • School milk programme	• Right culture and shared values • Safety and health • Supply chain dynamics • Client-centric services • Value for shareholders

Sustainability Framework

Sustainability is embedded within the Company and is led from the top. Sustainability matters are managed by various departments within Dutch Lady Malaysia. Based on the Economic, Environmental and Social framework – as set out in the Main Market Listing Requirements guidelines and in line with Dutch Lady Malaysia's vision of helping Malaysians move forward with trusted dairy nutrition – we are committed to sustainability within the market we operate in, the environment, the surrounding community and in the workplace.

Materiality Assessment

In order to achieve the Company's sustainability objectives, a comprehensive materiality assessment was conducted internally in 2017. This was gathered from the various classes of stakeholders as tabulated below:

Class of stakeholders	Low	Medium	High
Business Partners	• Supporting local suppliers • Protecting suppliers' rights	• Anti-corruption • Anti-competition	• Climate change • Occupational Safety and Health • Public safety
Customers	• Discrimination	• Responsible marketing • Customer privacy • Quality assurance • Eco-friendly products	• Economic and business performance • Customer satisfaction
Employees	• Employee volunteerism • Labour management • Local hiring	• Diversity and equal opportunity • Employee satisfaction	• Retaining employees • Career development
Regulators	• Community engagement	• Public policy • Nation-building	• Waste and effluent management
Suppliers & Contractors	• Benefits to local communities	• Sustainable procurement and performance	
Shareholders & Analysts		• Engagement with analysts, answering specific questions • Investor presentations	• Stakeholder engagement

Sustainability Statement

Based on the materiality assessment outcome, the top 5 principal risks were identified below.

Principal Risks	Mitigation Factors
Occupational Safety and Health (OSH)	Continuous OSH awareness programme with focus on processing control safety measures
Customer Satisfaction	Regular customer survey to determine level of customer satisfaction and improvement suggestions
Career Development	Annual staff appraisals and promotions based on merit
Waste, Noise and Effluent Management	Strict compliance to regulatory requirements and local council standards
Stakeholder Management	Engaging with the investment community more regularly upon the release of important corporate action plans

The following sections discuss the principle risks, as well as the mitigation factors undertaken by the Company to meet the aforementioned challenges. It also discusses the various steps Dutch Lady Malaysia has undertaken in 2017 to meet our sustainability targets.

We aspire to demonstrate our commitment to sustainability within the following four areas:

- Marketplace
- Environment
- Community
- Workplace



MARKETPLACE

BALANCED NUTRITION

As the world population increases, so has the need to ensure consistent and sustainable provision of quality nutrition. Our parent company, RFC has this as one of the four cornerstones of its own CSR priorities – to ensure sufficient nutritious food to help combat undernourishment and a shortage of nutrients.

Locally, Dutch Lady Malaysia aims to continue our efforts in combating obesity and nutrient deficiency by ensuring that our products are responsibly manufactured, healthy and available in various choices and portion sizes. We constantly look at ways in educating our consumers on healthy eating and lifestyle and emphasising the importance of daily exercise.

• Drink.Move.BeStrong campaign

Dutch Lady Malaysia believes that every child's growth and development is heavily influenced by both nutrition and physical activity. As such, our Drink.Move.BeStrong ("DMBS") campaign launched in 2014, provides an ideal platform for the Company to encourage living an active and healthy lifestyle among Malaysian youths whilst at the same time promoting the goodness of milk in aiding physical growth and development in young children. This was done through various initiatives supported by nutritional talks and exercise programmes.

• Jr NBA programme

Running on its fourth year, the DMBS campaign achieved yet another year of success. Dutch Lady Malaysia's continued partnership with the Jr. NBA has cemented its position as an effective platform to promote the importance of drinking milk and making it part of our nutritional intake and encouraging physical activity through sports like basketball. The programme is instrumental in helping to drive awareness among children, parents and teachers in staying active and living a healthier lifestyle to combat the rise of non-communicable diseases (NCDs) in Malaysia. The activities organised under the Jr NBA programme in 2017 saw a further increase in the total participation compared to 2016, attracting more than 6,500 participants from all over Malaysia.



Jr NBA training camps

At Dutch Lady Malaysia, we believe that every child's growth and development is heavily influenced by both nutrition and daily exercise. That is why we advocate that every young Malaysian drinks two servings of milk and spends at least an hour on outdoor activities every day through our Drink.Move.BeStrong platform.

In 2017, Dutch Lady Malaysia and Jr NBA, in partnership with the Ministry of Education ("MoE"), rolled out the pilot training programme for Physical Education ("PE") schoolteachers under the Jr NBA programme. This is to leverage on their influence to encourage school children to stay active through sports activities such as basketball, while learning about the nutritional goodness of milk. The pilot programme attracted 200 PE school teachers through the MoE.

Dutch Lady Malaysia also continued its Jr. NBA National Training Camp in 2017 led by professional NBA player, Marvin Williams from the Charlotte Hornets to coach the young participants on basic basketball skills such as dribbling, ball handling, shooting and encouraged team work. A series of on-court edutainment activities were incorporated into the camp training to further raise awareness and also to build affinity for the programme by reinforcing the need for growing children to have sufficient nutrition that can be sourced from drinking milk to be healthier and active by spending time on outdoor exercise or playing games like basketball, to address the issue of obesity and malnutrition in children in Malaysia.

- **1 Malaysia School Milk Programme**

The Company's commitment to serve the national agenda saw our continued support for the Program Susu 1Malaysia ("PS1M") to improve the overall health and well-being of young children in Malaysia with trusted dairy nutrition. In 2017, a total of 12.6 million packs were distributed to over 2,700 primary schools that benefitted 340,000 students from states

in Peninsular Malaysia. As a key and trusted provider for PS1M, Dutch Lady Malaysia launched the programme in Terengganu with the support of the Deputy Minister of Education I, which saw the participation of over 2,500 school children, including the local community.

On its third year's running, Anugerah 3K Drink.Move.BeStrong, in partnership with the Ministry of Education, continues to advocate the benefits of living a healthy lifestyle to school children in Malaysia, as a means to address the growing problem of obesity; a non-communicable disease ("NCD") increasing amongst young children in the country. The positive and record high participation in 2017 are truly a testament that after three years the programme has proven to be an effective platform to build a healthier future generation in line with the three shifts in Malaysia's Education Blueprint. In 2017, the 3K Drink.Move.BeStrong Programme set a new record in school participation, 237,000 students participated or eleven times higher than in 2016, more than 160,000 social media views and received over 25,000 student pledges in support of adopting a healthier and more active lifestyle, and an increased awareness of the goodness of dairy nutrition in their diet.

In recognition of its efforts for the Anugerah 3K Drink.Move.BeStrong programme, Dutch Lady Malaysia received the Public Private Partnership Appreciation 2017 Award from the Education Minister, YAB Dato' Seri Mahdzir bin Khalid to showcase the exemplary partnership between Dutch Lady Malaysia and the Ministry of Education.



1 Malaysia School Milk Programme (PS1M)

Sustainability Statement

HALAL SUPPLY CHAIN

Dutch Lady Malaysia remains committed to providing Halal products to its consumers by putting in place various Halal monitoring tools and systems that sets out the Company's commitment to adhering to the Halal requirements set out by Jabatan Kemajuan Islam Malaysia ("JAKIM"). This covers the highest standards of hygiene, quality and safety conditions from manufacturing to distribution of our products. The establishment and support of Dutch Lady's Internal Halal Committee undertakes a collective responsibility towards ensuring the Company practices adherence to the Halal Policy in alignment with JAKIM's requirements. Several Halal initiatives took place which was Halal Showcase 2016, Halal week 2016 & Halal week 2017 with the purpose of engaging with internal employees and external stakeholders. Employee participation increased by 15% for Halal Week 2017 as compared to 2016 attracting a total of 638 participants.

In 2017, Dutch Lady Malaysia received the highest recognition of being awarded two prestigious industry awards by JAKIM – the Halal Fast Lane Award and the Halal White List Award, recognition given to local food manufacturers and multinational companies. The Halal Fast Lane Award and Halal White List Award are extended by JAKIM only to selected companies in appreciation of their commitments and efforts towards elevating Halal compliance in Malaysia. The Halal White List Award is given to a selected 93 companies amongst 6,000 registered food companies under JAKIM.

These achievements reflect Dutch Lady's Halal system and practices are well in place in preserving Halal integrity throughout the supply chain to serve Malaysian consumers.

COMMITMENT TO FOOD QUALITY AND SAFETY

The RFC Group safeguards food safety and food quality with FoQus system. FoQus is RFC's global internal quality and food safety management system, where it sets in place for all RFC production locations to undergo periodic audit verification to ensure its products and manufacturing processes meet the high standards of the Group on quality and food safety.

FoQus supports the RFC Group and the Company in the development of an increasingly robust production process. With FoQus, strict requirements are enforced to ensure that all our products and the way in which it is produced meets our own high standards on food safety, quality, labour safety and environment.

Dutch Lady Malaysia continues to enhance the safety and quality of our products, and we successfully sustained an 'A' score rating for 2017, one of the highest accreditation amongst the RFC Business Group Consumer Products Asia.

CORPORATE AND PERSONAL CONDUCT

To us, sustainability means carrying out our business in a socially responsible and holistic manner to ensure continued growth and success for the benefit of both the present and future generations. In pursuing this, we are guided by RFC's Compass, our code for good business conduct. This code of Conduct and its corresponding policies provides the basic principles of integrity, respect and transparent business behaviour of the Company and its employees in all our business undertakings. All our employees are expected to maintain the highest standards of propriety, integrity and conduct in all their business relationships. Employees are contractually bound to abide by the Compass code for good business conduct in their business activities and with external stakeholders such as our customers and suppliers. Bribery and corruption are not tolerated. Employees are encouraged to report any malpractices without fear or favour with the establishment of the Speak-Up procedure which allows an employee to address any concerns regarding non-compliance with Compass to the Company's local trusted representatives or an external contact at the RFC Group's head office.

The Compass and its corresponding policies (which include the Speak-Up Procedure, Doing Honest Business and Fair competition policies) are cascaded to all employees within the Company via a comprehensive communication and training programme.

In line with this, the Company's suppliers and vendors are also required to sign the FrieslandCampina Suppliers' Business Practices when onboarding as a provider of goods and/or services to Dutch Lady Malaysia.

RESPONSIBILITY TO SHAREHOLDERS AND INVESTORS

We recognise the importance of maintaining transparency and accountability to our shareholders and investors. In line with good governance practices, we place utmost importance on compliance, accountability and transparency in the disclosure of information to our stakeholders. We frequently engage research analysts and the media about our Company's performance, new product launches and corporate social activities. The Company's website at www.dutchlady.com.my provides corporate and financial information as well as news, highlights, events, product information and nutritional advice. Further details on the various channels utilised for timely engagement with our shareholders and investors can be found in our Statements on Corporate Governance and Risk Management & Internal Control of this Annual Report.



ENVIRONMENT

We remain committed towards our responsibility on environmental issues in the conduct of our business. It combines our responsibility with our business objectives for long-term sustainable development. Our Safety, Health and Environmental ("SHE") Policy outlines our commitment and position on this.

ENERGY, WATER AND WASTE MANAGEMENT

Conservation of resources is an important priority for the Company. Our Operations team, with the support of our parent company, have put in place a strategy that looks into decreasing our energy footprint. For 2017, the Company

achieved a further 8% reduction of our total energy usage. This has brought our energy ratio of total usage of energy (compared to the factory production levels) down to 1.12 in 2017 (compared to a ratio of 1.19 in 2016).

This shows that Dutch Lady Malaysia has continued its commitment to reducing energy usage over the last three years: 1.22 in 2015, 1.19 in 2016 and 1.12 in 2017.

Dutch Lady Malaysia has taken conscious steps into improving our manufacturing processes and continuously worked towards reducing electricity consumption throughout the Company. In Q2 2017, we had installed a new chiller system in our premises, adopted compressed air optimisation by using a Booster pump and replaced the DX unit to chill water at Cold Room FCU. With all these efforts, we continue to see a further 13% reduction in the total consumption of electricity in 2017, compared to the previous years.

As part of the Company's manufacturing process, natural gas is a major consumption within its manufacturing plant. To ensure optimal and effective consumption of natural gas, the operations team consistently monitors the running of the boiler system, which is already on an efficiently running Direct Control Combustion Control system. Our efforts on the same have resulted in a 3% reduction on the usage of natural gas in the Company.

Ongoing efforts to ensure reduction of water wastage via continuous maintenance of its piping systems are set in place. We have also put in place a systematic procedure for the disposal and repurposing of market-returned products, used packaging materials and scheduled waste. The Company also has scheduled audits and plant maintenance carried out to ensure optimum usage of our energy resources. Dutch Lady Malaysia believes these efforts will contribute to a cleaner and greener environment.



Manufacturing process

Sustainability Statement

SUSTAINABLE SOURCING

Dutch Lady Malaysia believes in an efficient and sustainable production chain. Besides dairy, various raw materials are used like palm oil, cocoa, sugar, and packaging materials like paper and cardboard.

Dairy raw materials are sourced via the parent company RFC, as well as from local farmers. Local farmers are supported via the Dairy Development Programme (see the chapter on Improving Dairy Self-Sufficiency).

Our parent company RFC, is a member of the Round Table on Sustainable Palm Oil ("RSPO"). In line with this, we have, since 2011, manufactured our products using 100% sustainable palm oil.

The same effort has been put in place for cocoa, another major ingredient used. We use only sustainable cocoa that meets the UTZ Certified criteria. In addition, the procurement of starch as a raw material for our production is from SEDEX certified suppliers.

In 2016, Dutch Lady started purchasing credit under Bonsucro, a certification body, for sustainable sourcing of sugar. Dutch Lady Malaysia began with 15% coverage in 2016 and in 2017, the Company achieved 30% coverage.

Aside from sourcing sustainable (agricultural) raw materials, we have also demonstrated our commitment to responsible forestry by using the Forest Stewardship Council ("FSC")-certified materials as the primary packaging used for our Dutch Lady UHT milk.

In Malaysia, Dutch Lady Malaysia was the first manufacturer to use FSC-certified packaging since mid-2013. This is easily identified through the FSC logo printed on the products. Our efforts do not stop merely at primary packaging but it continues to secondary packaging as the majority of materials used by our Company are from sustainable sources.



COMMUNITY

SPREADING THE GOODNESS IN DAIRY

Milk is an important source of nutrition in the development of our physical and intellectual health. In Malaysia, the average milk consumption is relatively low compared to other Asian countries. Therefore, along with our purpose of helping Malaysians move forward with trusted dairy nutrition and spreading the goodness of milk nutrition, we have played an active role in supporting deserving organisations through sponsorship and donation of our dairy products, especially where the well-being and health and nutrition of families and children are concerned.

In celebration of the 2017 World Milk Day, we commemorated the occasion by helping Malaysians and our employees to share the goodness of milk with their loved ones by surprising them with gifts of nutritious packs of milk. Loyal fans and consumers received specially designed boxes filled with packs of Dutch Lady PureFarm milk attached with personalised messages to show them our appreciation while keeping our Dutch Dairy heritage promise of nourishing Malaysian families and children with trusted dairy nutrition.

IMPROVING DAIRY SELF-SUFFICIENCY

Dutch Lady Malaysia, the Department of Veterinary Service ("DVS") and the Netherlands Embassy have been working together since 2008 to help local dairy farmers make their business more sustainable to meet the growing demand for milk in Malaysia. Through our Dairy Development Programme ("DDP"), we have been providing Malaysian farmers with the necessary knowledge to improve their capabilities in areas such as effective feed and nutritional practices, good animal health and fertility practices, disease control, milk testing and monitoring methods on a year to year basis.

In 2017, Dutch Lady Malaysia together with the Department of Veterinary Services reached out to 60 Malaysian farmers in the states of Perak and Melaka (30 dairy farmers for each State) via the Farmer2Farmer ("F2F") knowledge exchange programme by having 3 Dutch farmers spending quality time with local farmers. This structured programme and open sharings has resulted in improving fresh milk yield at farms.

The Deputy Director, Department of Livestock Commodity Development Department of Veterinary Services, Dato' Dr. Rosini Binti Alias, has commented that the Farmer2Farmer collaboration provided valuable insight into sustainable livestock production to our local industries and she has seen that more local farmers are starting to organise themselves into cooperatives and professionalising themselves by developing new technology and skills. This has yielded encouraging results for milk production. A prime example is the obvious growth in yield from 2.87 million litres in 2012 to 4.22 million litres in 2016 for the state of Perak alone.

Since the launch of the F2F programme in 2013, the programme has benefitted the local farmers' livelihoods through the development and enhancement of their dairy farming skills. The F2F Programme is one of the integral activities of Dutch Lady Malaysia's Dairy Development Programme that has transformed, advanced and contributed to the sustainability and growth of the Malaysian dairy industry.



“
This is my 4th time in Farmer2Farmer, where I learn new ways to handle my herd so that they eat and live well, which results in better milk. I can see dairy farming as becoming a steady and growing income source for my family just like it is for our mentor Dutch farmers who have been farming for generations.
”

Tangayan Paramasivam, a local farmer commenting on how he has benefitted from the F2F initiative



WORKPLACE

BEING THE NO.1 EMPLOYER IN DAIRY

The working environment of Dutch Lady Malaysia is fondly characterised by fairness, respect and integrity. We are highly committed in providing equal and competitive opportunities at all levels of our business, both within the scope of Talent Acquisition and Talent Development or Management. The Company is also guided by the principles of diversity and our employee portfolio reflects a broad variety of cultures, ethnicity, gender and age.

An overview of workforce statistics over the last 3 years:

Overview of workforce statistics		2015	2016	2017
Category	Executives	50%	56%	52%
	Non Executives	50%	44%	48%
Gender	Male	66%	66%	69%
	Female	34%	34%	31%
Age Group	< 30	17%	18%	15%
	30 – 40	46%	42%	48%
	41 – 50	22%	23%	21%
	> 50	15%	17%	16%
Diversity	Bumiputera	49%	53%	52.5%
	Non-Bumiputera	43%	45%	40%
	Others	8%	2%	8%

Sustainability Statement

Dutch Lady Malaysia also aims to achieve a balanced participation between men and women in the workforce. Here is an overview of women in management and workforce:

Women in Management (%)	2015	2016	2017
Directors/Senior Management	64.1	61.1	66.7
Middle Management	51.7	51.8	48.1
Executive/Supervisory	57.0	55.8	47.1
Non-Executive	10.6	10.3	9.0

Overview of new hires by gender:

New Hires (%)	2015	2016	2017
Male	42.7	45.8	58.5
Female	57.3	54.2	41.5

We are an employer that respects its employees and inspire them to fulfil their potential. We have a comprehensive performance management system which provides opportunities for employees to discuss performance, opportunities for development and a chance to raise any issues or concerns. This resonates with our commitment to treating everyone fairly and consistently by, responding to their needs and supporting their career development and progression. This enables the Company to be a high performing organisation that is responsive to changing economic conditions and business needs.

In 2017, Dutch Lady Malaysia continued to promote the AAA culture, a set of values that represents Accountability, Alignment and Action in our daily work. It is vital that employees of Dutch Lady Malaysia exemplify the AAA mind-set and behaviour, which is essential to our team-based organisation enabling us to reach our strategic goals. All employees are introduced to the AAA values during their initial on-boarding journey and throughout the years of their employment.

In 2017, a new initiative was introduced to further embed the living of the AAA culture in daily working. A cross department – Project AAA team was formed to further drive the AAA values aligned with the business objectives. All employees were being grouped in different teams to compete amongst each other in living up the AAA value and winners were being recognised for their exemplary efforts. The team had executed several employee engagement activities throughout the year for the sustenance of our organisation culture and to inculcate the living of values

among employees. The AAA values are also an essential part of discussions during the performance appraisal coaching sessions with employees.

EMPLOYEE ENGAGEMENT

We ensure that open and two-way communication channels are made available to all employees through various initiatives. Town hall meetings are regularly held at both the corporate office and factory site, as one of the many platforms, to provide employees with business-related updates and to facilitate better understanding of the Company's objectives and direction. In addition, senior executives continuously engage with employees through workshops, to enhance cross-functional alignment in the execution of the Company's strategies and plans. The Management Team also conducts skip-level meetings with junior employees to facilitate understanding of the Company's business objectives, and also serves as a platform for valuable feedback to further enhance engagement in the organisation.



Quarterly town halls

Employees have access to a shared portal on the Intranet, where they can gain latest information on the Company and the RFC Group, as well as obtain necessary documents and schedules. The Company's internal employees' newsletter, also known as SUARA, is published periodically to highlight key updates that have happened over the year. Plant managers at the Operations Division have Daily Report Meetings every morning to keep each other informed of updates and relevant information.

Coherent with the Company's mission and to emphasise the spirit of winning together as a family, various activities have been carried out in 2017. Amongst others, the Perfect Attendance award was conducted to appreciate and recognise our factory employees who have consistently demonstrated their commitment in performing their job through excellent attendance record. Dutch Lady Malaysia

also organised various sports activities throughout the year. Our employee engagement initiatives were extended not only to employees, but also to their family members e.g. during World Milk Day and Mother's Day, employees are encouraged to participate in Company contest to win love gift token to the family members. This gave employees the opportunity to gather and become acquainted with families of other employees.

And in continuation of our support for educational excellence, an Education Excellence Award was presented to children of employees who have shown commendable excellence in their examinations. In 2017, there were a total of 11 Education Excellence Award recipients, who were recognised by Dutch Lady Malaysia for their outstanding performance in their examinations.

SAFETY REMAINS OUR NO. 1 PRIORITY

We are committed in ensuring a safe environment for our employees, contractors and visitors who work on-site through our demonstration of safe work practices. In 2017, intensive efforts were established to attain accident-free days by increasing safety awareness and individual responsibility. This encouraged behaviour of keeping everyone safe, whilst working within the premises of the factory and the corporate office. Rigorous safety checks

were continuously carried out and the Management and employees worked continuously to refine safety actions and levels accordingly.

The Company also continued to share our safety vision and culture with not only our business partners, contractors but also with the community.

The Hearts and Minds programme was further enhanced to strengthen the safety culture within the Company to encourage employees to continuously engage on all aspects of safety in their day-to-day business activities.

In addition, initiatives such as the *Managing Rule Breaking* workshops were organised with the Operations team to increase awareness of the impact of violating rules at the factory and the improving supervision programme was introduced to improve the safety leadership.

The "LOTOTO" (Lock-Out/Tag-Out/Try-Out), Work Permit and LMRA (Last Minute Risk Assessment) procedures, Energy Saving Programme and Fire Safety Standard were strengthened in 2017. 200 employees were trained to increase the competency of employee and effectiveness of the process. Fire safety equipment and procedures were assessed and updated.



*Safety, Quality
and WCom Week*



Sustainability Statement

Safety was also extended to all the Company's suppliers and visitors. In this regard, all visitors, third party contractors and suppliers who visit the factory premises are required to sign on a Safety Compliance Statement which contains the "7 Life Saving Rules" to ensure top most attention to safety when visiting and/or performing work. In 2017, all contractors, transporter, milk tankers and farmers are required by Dutch Lady Malaysia to attend its Safety Orientation for Contractors ("SOC") and also the Defensive Driving Orientation ("DDO"). All contractors are also subjected to the worksite safety inspection and a half-yearly self-assessment, including an annual audit conducted with contractors.



Safety improvement for milk tanker delivery



7 Life Saving Rules

Ultimately, safety remains the No.1 priority for Dutch Lady Malaysia and we want to further build awareness on the responsibility of keeping everyone safe when working within the premises of our factory and corporate office. We will continue to strive for 'accident-free' days.

Here is an overview of recorded incidences:

Year	No. of incidences	No. of Fatal Accidents
2017	3 cases	0
2016	7 cases	0
2015	9 cases	0

TRAINING & DEVELOPMENT

Our employees are vital to our sustainable success. We aim to grow global leaders equipped with the knowledge and skills to keep us at the forefront of the industry. We are passionate about talent management and development, which encompasses, on-the-job training, mentorship programmes, specific skill development programmes, performance improvement plans and job realignment programmes, that enable employees to learn and grow in the organisation.

Being a progressive and team-based organisation, our commitment to human capital growth, leadership and development extends within the region via our functional academies and globally, through RFC's leadership programmes, enabled by FrieslandCampina Academy. FrieslandCampina Academy enables the RFC Group to influence talent as an accelerator for achieving business results.

Our local employees have been selected to participate in the FrieslandCampina Nourishing Leadership, FrieslandCampina Asia Leadership and Learn to Grow Programmes, enabling them an opportunity to grow within the RFC Group and develop into the next class of high potential leaders, within the organisation. Some of the employees of Dutch Lady Malaysia that participated in these leadership programmes have been placed on either short or long term assignments in RFC Group's global offices.

We are dedicated in investing towards the growth and development of our employees. Dutch Lady Malaysia obtained a total of 716 training man-days from 57 training programmes completed by our employees throughout the year in 2017. The training programmes were accomplished by employees at all job grade levels, including the unionised employees. We had also established a set of compulsory syllabus for all new employees to learn and adapt, in order to ensure a seamless assimilation into our working culture. This was an impetus for us to strive for greater achievements and continuously building our talent pool.

An overview of training hours invested on developing our employees over the last 3 years:

Year	Total Training Hours for Executives (JG10 and above)	Total Training Hours for Non-Executives (Below JG10)
2017	4,124	1,604
2016	3,349	2,053
2015	4,128	2,868

NURTURING TALENT

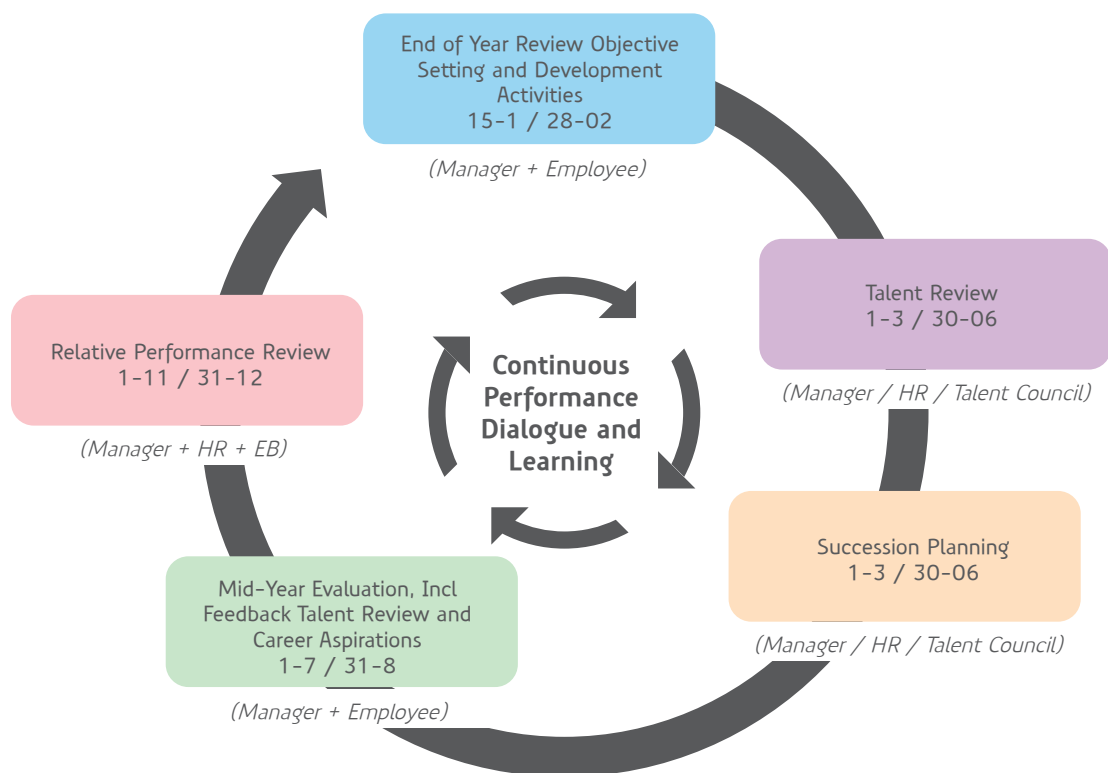
Dutch Lady Malaysia understands that the future lies in the hands of the younger generation of our workforce. We place great importance on cultivating and nurturing the future generation with the right skills, knowledge and values that are essential to shaping a brighter tomorrow.

Our business environment and commercial demands are constantly evolving, therefore our ability as an organisation to adapt, achieve and stay ahead of the game, is influenced by the development and growth, of all our people.

In 2015 FrieslandCampina introduced the Global Talent Management Cycle in line with the Performance

Management framework. The processes within the cycle have been 'e-enabled' through its Talent and Learning Management system used by RFC worldwide as a platform that offers support in all talent, performance and learning activities for employees worldwide.

Through the Talent Review process, the organisation determines the potential of each employee. The outcome of this discussion is the starting point to discuss possible next steps and the readiness for that specific employee. This results into Succession Planning, which is the structured process of identifying possible successors, and their readiness, for pivotal (i.e. critical) positions in the Company.



Global Talent Management Cycle

In addition to the Educational Excellence Awards presented to employees' children, the Company also actively participated in career fairs to remain an attractive choice for potential applicants and Employer of Choice in the dairy sector. Our achievements were recognised in the industry; as we were awarded as one of the winners of the Most Popular Graduate Employer of the Year in the FMCG 2017. We were also recognised as a sector finalist as one of Malaysia's Top 100 Leading Graduate Employers for FMCG by TalentCorp and GradMalaysia.

Statement of risk management and internal control

The Board is pleased to provide this Statement on Risk Management and Internal Control which outlines the nature of risk management and internal control within Dutch Lady Milk Industries Berhad for the year under review.

RESPONSIBILITY AND ACCOUNTABILITY

The Board has overall responsibility for the Company's management of risk and system of internal controls, which includes the adoption of Internal Control Framework ("ICF") established by Royal FrieslandCampina N.V. ("RFC"). ICF requires controls to be tested either quarterly, half yearly or yearly, depending on their criticality, to ensure their effectiveness, adequacy and integrity. The Board is responsible for identifying the key business risks faced by the Company and for determining the course of actions to manage those risks. The Company continuously evaluates and manages risks and reviews the planned actions.

The Board has received assurance from the Managing Director and the Finance Director that the Company's risk management and internal control system is adequate and operating effectively, in all material aspects.

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

RISK MANAGEMENT

The Company implemented the Enterprise Risk Management programme in August 2012 based on the framework that was developed and issued by RFC. The programme establishes an enterprise risk assessment ("ERA") for identifying, evaluating, monitoring, reporting and managing significant business risks that affect the achievement of the Company's objectives and policies, on an annual basis.

Key business risks are identified during the business planning process and are reviewed annually by the Board and the Audit Committee, as part of the normal governance process, taking cognisance of changes in the regulatory and business environment. This is to ensure the adequacy and integrity of evaluation within the system of risk management and internal controls.

The Enterprise Risk Management programme encompasses the following, with the potential business risks being escalated to the Audit Committee and the Board for their consideration:

- (i) Identification and assessment of risks;
- (ii) Increase risk awareness amongst key personnel; and
- (iii) Mitigation of risks by means of the relevant control mechanisms and action plans.

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 principal features of the Company's internal control structure are summarised as follows:

• Board Committees

The functions and responsibilities of the various committees of the Board of Directors are defined in the terms of reference. These include the Audit Committee, the Nomination Committee and the Remuneration Committee.

• Organisational Structure and Responsibility Levels

The Company has an organisational structure with formal lines of responsibility and authorisation procedures within which senior management operates and is accountable for.

• Authority Levels, Acquisitions and Disposals

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

Investment decisions are delegated to Management in accordance with authority limits. Appraisal and monitoring procedures are applied to all major investment decisions.

Board of Directors' approval is required for key treasury matters including equity and loan financing, material acquisitions and disposals of assets not in the ordinary course of business, investment in capital projects, cheque signatories and the opening of bank accounts.

On top of this, the FrieslandCampina Corporate Manual includes the procedures and guidelines in which responsibilities and authorisations are stipulated and are applicable for the day to day management of the Company.

● Procedure and Control Environment

In addition to internal controls, the Directors have ensured that health and safety regulations, environmental controls and political risks have been considered, and relevant laws and regulations complied with. The quality of the Company's products is of paramount. Quality Assurance, Quality Control and meeting customers' requirements are prime considerations and these are achieved by the Company being FSSC 22000 certified. Ultimately, the aim of the Company is to deliver safe food to consumers, whilst demonstrating compliance with the prevailing laws and regulations.

In addition, strong emphasis is also given to food safety with Good Manufacturing Practices and Hazard Analysis and Critical Control Point ("HACCP") System that cover all plants.

The Company has in place the ISO 14001 Environment Management System, a systematic management approach to the environmental concerns of the Company, and OHSAS 18001, the Occupational Health and Safety Assessment Series for the protection of employees from hazards and the mitigation of work related injuries and health-related issues.

Since 2011, the Company has embarked upon FoQus, a broad based quality system. The frequency of FoQus audit, usually once in one to three years, depends on the grade obtained by the Company in the last FoQus audit. This ensures that products produced by the Company and the way in which they are being produced meet the necessary high standards on food safety, quality, labour safety and environment.

The Company has formal guidelines on safety, health and environment which apply to all employees and third party contractors.

The integrity and competence of personnel are continuously assessed through the Performance Management System, talent assessment programme, management organisation development and Hay Reward Management System.

● 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.

In this regard, the RFC Group's code for good business conduct, Compass, plays an important role in the management of compliance risk. This code of conduct and its underlying guidelines (which include the Speak-Up Procedure, Fair Competition guidelines and Doing Honest Business, amongst others) forms the basis of the honest, respectful and transparent business conduct of the Company's employees and third parties with whom the Company transacts with. Compliance with this code of conduct and the guidelines is cascaded to all employees by means of a comprehensive communication and training programme, with designated local trusted representatives, set in place.

The Compass is supported globally by RFC Corporate Headquarters with an established integrity committee and a reporting platform that is available to employees 24 hours a day, seven days a week so they can, in confidence, express their concerns regarding a suspected infringement of the code or a guideline.

In line with this, the Company has an Employee Handbook that guides the Company's employees in their day to day conduct. Employees are expected to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest.

Suppliers are also bound by the "RFC Business Practices for Suppliers" to ensure honest conduct of business is being practiced within the Company's business operations.

Statement of risk management and internal control

● **Formalised Strategic Planning and Operating Plan Processes**

The Company performs business planning and budgeting process each year, to establish plans and targets against which performance is monitored on a monthly basis by Management.

The Company formulated a Sales & Operations Planning process to align product demand and supply together with financial resources in order to provide the Company with defined business strategies and priorities. In addition, the process also aims to continuously improve business performance, especially on the improvement in customer service levels, forecasting accuracy and inventory turnover.

● **Reporting and Review**

The Company's Management Team monitors the monthly reporting and reviews the financial results and forecasts for the business against the operating plans and annual budgets. The results are communicated to employees at the Company's town hall sessions. A separate monthly financial reporting booklet is also disseminated to the Management Team members, with periodical meetings organised with core business managers.

The Managing Director reports on a quarterly basis to the Audit Committee and the Board of Directors on significant changes in the business and external environment in which the Company operates.

● **Financial Performance**

The preparation of quarterly and full year financial results and the state of affairs, as published to shareholders, are reviewed by the Audit Committee and later approved by the Board.

● **Assurance Compliance**

The Board, Audit Committee and Management review the Internal Audit reports on a quarterly basis and monitor the status of implementation of corrective actions that are prepared by the Internal Audit team to address internal control weaknesses noted.

● **Internal Control Framework**

The Company has in place an ICF based on the framework that was developed and issued by RFC. The ICF comprises prescribed control measures that are evaluated by means of regular internal assessments for which if shortcomings are discovered, improvement measures are set in place and regularly tracked.

During the year, the Company continued the execution and self-assessment testing of the ICF controls and procedures.

● **Update on Developments**

Quarterly reporting is made to the Board on legal, accounting and environmental developments where applicable. Briefings are also conducted to keep employees informed of changes to legislation or local by-laws that are expected to affect the Company's operations or the way the Company conducts its business, where relevant.

INTERNAL AUDIT FUNCTION

The Internal Audit Function independently focuses on the key areas of business and operations with a risk based audit plan approved annually by the Audit Committee. Internal audit reports are presented on a quarterly basis to the Audit Committee.

The Internal Audit team highlights, to the Audit Committee and Management, areas for improvement and follows-up on the progress of implementation of the agreed actions arising from the internal audit report.

The Audit Committee in turn reviews the effectiveness of the system of internal controls in operation and reports the results thereon to the Board.

ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. Management continues to take measures to strengthen the control environment.

Taking into account the limitations that are inevitably inherent in any risk management and internal control system, and the possibilities for improving the system, the Company's risk management and internal control systems provide a reasonable degree of assurance that:

- The Board will be informed quarterly of the degree to which the Company's strategic, operational and financial objectives are being achieved;
- The internal and external financial reporting do not contain any material misstatement and that the risk management and internal control systems functioned effectively during 2017; and
- The Company has complied with the relevant legislation and regulations.

This Statement is prepared in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (Guidelines) with an effective date of 31 December 2012, in line with the Paragraph 15.26(b) of the Bursa Malaysia Listing Requirements and Principle B of the Malaysian Code on Corporate Governance 2017 as issued by the Securities Commission Malaysia.

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015), issued by the Malaysian Institute of Accountants ("MIA"). RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Company.

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TOP MECH

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The background of the slide is a photograph of a warehouse. In the foreground and middle ground, there are large stacks of yellow and blue boxes of 'Curious 1-2' baby food. The boxes are stacked on a red pallet. The text 'Curious 1-2' is visible on the boxes. In the background, there are more stacks of boxes and a blue metal structure, possibly a forklift or a shelving unit. The lighting is bright, and the overall scene is clean and organized.

Safety is Everyone's Responsibility!

We are committed to developing a strong safety culture within our Company to ensure a safe environment for our employees, contractors and visitors. Our No. 1 priority extends to the adoption of the highest standards of hygiene, quality, safety and sanitary conditions throughout the manufacturing and distribution of our products where the safe way is always the best way.

Directors' Report

for the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company manufactures and distributes a wide range of dairy products, such as specialised powders for infant and growing up children, liquid milk in different packaging formats and yoghurts. The Company markets these products under various brand names such as Dutch Lady, Dutch Baby, Frisolac, Friso Gold and Dutch Lady PureFarm. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	RM'000
Net profit for the year	117,717

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

- (i) a first interim ordinary dividend of 50.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM32,000,000 in respect of the financial year ended 31 December 2017 on 21 April 2017, as shown in the Directors' report of that year;
- (ii) a first special interim ordinary dividend of 60.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM38,400,000 in respect of the financial year ended 31 December 2017 on 21 April 2017, as shown in the Directors' report of that year;
- (iii) a one-time extraordinary interim dividend of 60.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM38,400,000 in respect of the financial year ended 31 December 2017 on 31 May 2017;
- (iv) a second interim ordinary dividend of 50.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM32,000,000 in respect of the financial year ended 31 December 2017 on 27 December 2017; and
- (v) a second special interim ordinary dividend of 60.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM38,400,000 in respect of the financial year ended 31 December 2017 on 27 December 2017.

The Directors do not recommend any final dividend to be paid for the financial year ended 31 December 2017.

DIVIDENDS (CONTINUED)

In respect of the financial year ending 31 December 2018, the first interim and special interim ordinary dividends declared on 27 February 2018 by the Directors are 50.00 sen and 60.00 sen per ordinary share respectively totalling RM32,000,000 and RM38,400,000 respectively, to be paid on 25 May 2018.

DIRECTORS OF THE COMPANY

Directors who served during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Zainal Abidin bin Putih
Dato' Dr. Mhd Nordin bin Mohd. Nor
Foo Swee Leng
Boey Tak Kong
Saw Chooi Lee
Bernardus Hermannus Maria Kodden (appointed on 1 January 2018)
Tarang Gupta (appointed on 1 January 2018)
Piet Johannes Hilarides (resigned on 31 December 2017)
Jaska Marianne De Bakker (resigned on 31 December 2017)

In accordance with Article 94(a) of the Company's Constitution, Dato' Zainal Abidin bin Putih and Boey Tak Kong shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-election.

In accordance with Article 97 of the Company's Constitution, Bernardus Hermannus Maria Kodden and Tarang Gupta who were appointed since the date of the last report, shall retire at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-election.

The Company shall not adopt the 2 tier-voting system for the re-election of Boey Tak Kong, who had served for more than 12 years, as the Board has assessed and concluded that Boey Tak Kong is able to bring professionalism and independence to Board deliberations. In addition, Boey Tak Kong has indicated his intention to retire at the next AGM to be held in 2019.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors holding office at the end of the financial year held shares or had beneficial interest in the shares of the Company or of its related corporations during and at the end of the financial year. Under the Company's Constitution, the Directors are not required to hold any shares in the Company.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or the fixed salaries of full time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the 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.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' report

for the year ended 31 December 2017

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 14 to the financial statements.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

OTHER STATUTORY INFORMATION

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ascertain that:

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Company, have been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading.

At the date of this report, there does not exist:

- (i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION (CONTINUED)

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

HOLDING COMPANIES

The immediate and ultimate holding companies are FrieslandCampina DLMI Malaysia Holding BV and Royal FrieslandCampina NV respectively. Both companies are incorporated in the Netherlands.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 13 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tarang Gupta

Bernardus Hermannus Maria Kodden

Petaling Jaya
27 February 2018

Statement of Financial Position

as at 31 December 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Property, plant and equipment	3	100,799	95,657
Intangible assets	4	4,678	5,807
Total non-current assets		105,477	101,464
Inventories	5	115,839	112,993
Trade and other receivables	6	106,730	90,581
Prepayments		2,873	2,184
Cash and cash equivalents	7	61,339	213,619
Total current assets		286,781	419,377
Total assets		392,258	520,841
Equity			
Share capital	8	64,000	64,000
Retained earnings		40,010	101,493
Total equity		104,010	165,493
Liabilities			
Deferred tax liabilities	9	6,608	6,958
Total non-current liability		6,608	6,958
Trade and other payables	10	270,306	335,360
Provision	11	178	155
Current tax liabilities		7,975	12,804
Derivative financial liabilities	12	3,181	71
Total current liabilities		281,640	348,390
Total liabilities		288,248	355,348
Total equity and liabilities		392,258	520,841

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Revenue – sales of goods		1,064,536	1,047,725
Cost of sales		(663,372)	(603,852)
Gross profit		401,164	443,873
Other income		–	4,909
Distribution expenses		(149,930)	(167,342)
Administrative expenses		(27,389)	(24,995)
Other expenses		(66,440)	(59,851)
Results from operating activities		157,405	196,594
Interest income		3,109	4,508
Finance costs		(2,995)	(3,120)
Profit before tax	13	157,519	197,982
Tax expense	15	(39,802)	(48,908)
Net profit for the year/Total comprehensive income for the year		117,717	149,074
Basic and diluted earnings per ordinary share (sen)	16	183.9	232.9

Statement of **Changes in Equity**

for the year ended 31 December 2017

	Note	Share Capital RM'000	<i>Distributable</i> Retained earnings RM'000	Total equity RM'000
At 1 January 2016		64,000	93,219	157,219
Net profit/Total comprehensive income for the year		–	149,074	149,074
Dividends to owners of the Company	17	–	(140,800)	(140,800)
At 31 December 2016/1 January 2017		64,000	101,493	165,493
Net profit/Total comprehensive income for the year		–	117,717	117,717
Dividends to owners of the Company	17	–	(179,200)	(179,200)
At 31 December 2017		64,000	40,010	104,010

Note 8

Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Cash receipts from customers and other receivables		1,047,700	1,015,951
Cash paid to suppliers and employees		(959,633)	(754,063)
Cash generated from operations		88,067	261,888
Income tax paid		(44,981)	(52,197)
Net cash from operating activities		43,086	209,691
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(15,683)	(16,936)
Purchase of intangible assets	4	(597)	(115)
Interest received		3,109	4,508
Net cash used in investing activities		(13,171)	(12,543)
Cash flows from financing activities			
Interest paid		(2,995)	(3,120)
Dividends paid	17	(179,200)	(140,800)
Net cash used in financing activities		(182,195)	(143,920)
Net (decrease)/ increase in cash and cash equivalents		(152,280)	53,228
Cash and cash equivalents at 1 January		213,619	160,391
Cash and cash equivalents at 31 December	7	61,339	213,619

Note to the statement of cash flows

Cash flows from financing activities arose from interest paid to a licensed financial institution to enable certain trade customers to pay goods invoiced through a corporate purchasing card issued by the financial institution, and dividends paid on ordinary shares. None of these relate to a change in liabilities.

Notes to the Financial Statements

Dutch Lady Milk Industries Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

Principal place of business/Registered office

Level 5, Quill 9
No 112, Jalan Semangat
46300 Petaling Jaya
Selangor Darul Ehsan

The Company manufactures and distributes a wide range of dairy products, such as specialised powders for infant and growing up children, liquid milk in different packaging formats and yoghurts. The Company markets these products under various brand names such as Dutch Lady, Dutch Baby, Frisolac, Friso Gold and Dutch Lady PureFarm.

The immediate and ultimate holding companies are FrieslandCampina DLMI Malaysia Holding BV and Royal FrieslandCampina NV respectively. Both companies are incorporated in the Netherlands.

These financial statements were authorised for issue by the Board of Directors on 27 February 2018.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The Company has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

The adoption of this interpretation is not expected to have a significant effect on the financial statements of the Company.

- MFRS 9 "Financial Instruments" (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at FVTPL with an irrevocable option at inception to present changes in fair value in other comprehensive income ("OCI") (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018 (continued)

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

It applies to financial assets classified at amortised cost, debt instruments measured at FVTOCI, contract assets under MFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts.

Based on assessments undertaken to date, the Company does not expect the new guidance to significantly affect the classification and measurement of the Company's financial assets and financial liabilities. The additional allowance for impairment of trade receivables arising from the expected credit loss model is assessed to be not material.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

- MFRS 15 "Revenue from Contracts with Customer" (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018 (continued)

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Based on assessments undertaken to date, the Company does not expect the new guidance to significantly affect the Company's financial statements other than additional disclosure requirements.

The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

Management is currently assessing the impact of this standard.

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018 (continued)

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

Management is currently assessing the impact of this standard.

- Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

Management is currently assessing the impact of this standard.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

1. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements, other than as disclosed below.

(i) Trade spend accruals

Trade spend accruals of RM49.2 million (2016: RM73.5 million), which consists primarily of trade rebates and promotional discounts, are based on agreed trading terms and promotional activities with trade customers and distributors. Trade spend accruals are recognised under the terms of these agreements, to reflect the expected rebates, promotional activities and historical experience. These accruals are reported within Trade and Other Payables (Note 10). The estimates for these accruals are regularly reviewed by senior management of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(h)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss comprises financial liabilities that are derivatives (except for a derivative that is financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(iii) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	10 – 25 years
• plant and machinery	5 – 33 years
• motor vehicles	5 years
• furniture and equipment	5 – 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and adjusted as appropriate.

(d) Leased assets

(i) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leased assets (continued)

(i) Finance lease (continued)

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(e) Intangible assets

(i) Computer software

Computer software that is acquired by the Company, which has finite useful life, is measured at cost less any accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable computer software and that will probably generate economic benefits exceeding cost beyond one year or cost savings to the Company, and are not integral to other equipment are recognised as intangible assets. These costs include the employee costs of software development and an appropriate portion of relevant overheads.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Intangible assets are amortised from the date that they are available for use.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The estimated useful life of computer software for the current and comparative periods is 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for inventories) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (continued)

(ii) Other assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or a group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(i) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently. Ordinary shares are classified as equity.

(j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

(m) Income tax

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Earnings per ordinary share

The Company presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic and diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(o) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Company, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(p) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and equipment RM'000	Capital work-in progress RM'000	Total RM'000
Cost								
At 1 January 2016		5,639	62,575	105,025	997	14,598	23,549	212,383
Additions		–	–	–	–	–	16,936	16,936
Written off		–	–	(1,367)	–	–	–	(1,367)
Transfers		–	2,783	12,711	–	3,305	(18,799)	–
Transfer to intangible assets	4	–	–	–	–	–	(2,292)	(2,292)
At 31 December 2016/ 1 January 2017		5,639	65,358	116,369	997	17,903	19,394	225,660
Additions		–	–	–	–	–	15,683	15,683
Written off		–	–	(3,234)	–	(1,502)	–	(4,736)
Transfers		–	–	3,379	–	2,125	(5,504)	–
Transfer from intangible assets	4	–	–	–	–	81	–	81
At 31 December 2017		5,639	65,358	116,514	997	18,607	29,573	236,688
Depreciation and impairment loss								
At 31 December 2015/ 1 January 2016								
Accumulated depreciation		2,384	31,957	67,363	424	10,104	–	112,232
Accumulated impairment loss		–	–	2,427	–	–	6,893	9,320
Depreciation for the year		2,384	31,957	69,790	424	10,104	6,893	121,552
Written off		75	3,005	5,331	141	1,266	–	9,818
At 31 December 2016/ 1 January 2017		–	–	(1,367)	–	–	–	(1,367)
At 31 December 2016/ 1 January 2017								
Accumulated depreciation		2,459	34,962	71,327	565	11,370	–	120,683
Accumulated impairment loss		–	–	2,427	–	–	6,893	9,320
Depreciation for the year		2,459	34,962	73,754	565	11,370	6,893	130,003
Written off		75	3,036	5,449	141	1,889	–	10,590
At 31 December 2017		–	–	(3,227)	–	(1,477)	–	(4,704)
At 31 December 2017								
Accumulated depreciation		2,534	37,998	73,549	706	11,782	–	126,569
Accumulated impairment loss		–	–	2,427	–	–	6,893	9,320
		2,534	37,998	75,976	706	11,782	6,893	135,889

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and equipment RM'000	Capital work-in progress RM'000	Total RM'000
Carrying amounts								
At 31 December 2016		3,180	30,396	42,615	432	6,533	12,501	95,657
At 31 December 2017		3,105	27,360	40,538	291	6,825	22,680	100,799

- 3.1 Included in property, plant and equipment of the Company are fully depreciated assets, which are still in use, with an aggregate cost of approximately RM55,830,000 (2016: RM57,635,000).
- 3.2 Leasehold land relates to the lease of land with unexpired lease period of less than 50 years for the Company's factory buildings, office complex and warehouse located in Petaling Jaya. The lease will expire in 2059 and the Company does not have an option to purchase the leased land at the expiry of the lease period. Leasehold land are amortised over the lease term of the land.

Notes to the Financial Statements

4. INTANGIBLE ASSETS

	Note	Computer software RM'000	Capital work-in progress RM'000	Total RM'000
Cost				
At 1 January 2016		13,016	582	13,598
Additions		–	115	115
Transfers		582	(582)	–
Transfer from property, plant and equipment	3	2,292	–	2,292
At 31 December 2016/1 January 2017		15,890	115	16,005
Additions		–	597	597
Transfer to property, plant and equipment	3	–	(81)	(81)
At 31 December 2017		15,890	631	16,521
Amortisation				
At 1 January 2016				
Accumulated amortisation		8,499	–	8,499
Amortisation for the year		1,699	–	1,699
At 31 December 2016/1 January 2017				
Accumulated amortisation		10,198	–	10,198
Amortisation for the year		1,645	–	1,645
At 31 December 2017				
Accumulated amortisation		11,843	–	11,843
Carrying amounts				
At 31 December 2016		5,692	115	5,807
At 31 December 2017		4,047	631	4,678

5. INVENTORIES

	2017 RM'000	2016 RM'000
At cost:		
Finished goods	34,131	43,102
Raw materials	75,084	61,649
Packaging materials	5,964	7,698
Spare parts	660	544
	115,839	112,993
Recognised in profit or loss:		
Inventories recognised as cost of sales	552,024	489,585
(Reversal of provision)/provision for obsolescence of inventories included in cost of sales	(2,830)	1,900

6. TRADE AND OTHER RECEIVABLES

	Note	2017 RM'000	2016 RM'000
Trade			
Trade receivables		97,193	78,539
Less: Accumulated impairment on trade receivables		(3,953)	(3,953)
Net trade receivables		93,240	74,586
Amounts owing by related companies	6.1	4,120	6,423
		97,360	81,009
Non-trade			
Other receivables		6,410	6,835
Deposits		2,960	2,737
		9,370	9,572
		106,730	90,581

6.1 The amounts owing by related companies are unsecured and interest free with a credit term of 30 days.

Notes to the Financial Statements

7. CASH AND CASH EQUIVALENTS

	2017 RM'000	2016 RM'000
Cash and bank balances	24,839	38,995
Deposits placed with licensed banks	36,500	174,624
	61,339	213,619

The deposits placed with licensed banks bear an average interest of 3.58% (2016: 2.81%) per annum and have maturity periods ranging from 4 to 92 days (2016: 7 to 90 days).

Bank balances are held at call with licensed banks and earn no interest.

8. SHARE CAPITAL

	Amount 2017 RM'000	Number of shares 2017 '000	Amount 2016 RM'000	Number of shares 2016 '000
Ordinary shares with no par value (2016: par value of RM1 each):				
Authorised	–	–	100,000	100,000
Issued and fully paid	64,000	64,000	64,000	64,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company and rank equally with regard to the Company's residual assets.

The new Companies Act, 2016 which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

9. DEFERRED TAX LIABILITIES

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment	-	-	(8,239)	(9,388)	(8,239)	(9,388)
Inventories	165	845	-	-	165	845
Receivables	8	-	-	-	8	-
Accrued expenses	-	1,361	-	-	-	1,361
Provisions	812	37	-	-	812	37
Payables	-	-	(117)	-	(117)	-
Other items	763	187	-	-	763	187
Tax assets/(liabilities)	1,748	2,430	(8,356)	(9,388)	(6,608)	(6,958)

Movement in temporary differences during the year

	At 1.1.2016 RM'000	Recognised in profit or loss RM'000	At 31.12.2016/ 1.1.2017 RM'000	Recognised in profit or loss RM'000	At 31.12.2017 RM'000
Property, plant and equipment	(8,282)	(1,106)	(9,388)	1,149	(8,239)
Inventories	333	512	845	(680)	165
Receivables	-	-	-	8	8
Accrued expenses	1,512	(151)	1,361	(1,361)	-
Provisions	29	8	37	775	812
Payables	-	-	-	(117)	(117)
Other items	14	173	187	576	763
	(6,394)	(564)	(6,958)	350	(6,608)

Note 15

Note 15

Notes to the Financial Statements

10. TRADE AND OTHER PAYABLES

	Note	2017 RM'000	2016 RM'000
Trade			
Amounts owing to related companies	10.1	48,595	74,759
Trade payables		158,331	219,770
		206,926	294,529
Non-trade			
Amounts owing to related companies	10.1	24,616	19,733
Accrued expenses		37,721	19,978
Other payables		1,043	1,120
		63,380	40,831
		270,306	335,360

10.1 The amounts owing to related companies are unsecured and interest free with a credit term of 30 days.

11. PROVISION

	Employees' pension contribution	
	2017 RM'000	2016 RM'000
At 1 January	155	118
Addition during the year	30	37
Utilised during the year	(7)	–
At 31 December	178	155

Employees' Pension Contribution

Provision for employees' pension contribution reflects provisions made for additional contributions to be made to the statutory Employees Provident Fund that would vest upon unionised staff having completed five years of service. The provision has been made on the assumption that all relevant staff will complete their five year term and that therefore their benefits will vest in its entirety.

12. DERIVATIVE FINANCIAL LIABILITIES

	2017			2016		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss						
– Forward exchange contracts	76,031	–	(3,181)	27,051	–	(71)

Forward exchange contracts are used to manage the foreign currency exposures arising from the Company's payables denominated in currencies other than the functional currency of the Company. All of the forward exchange contracts have maturities of less than one year after the end of the reporting period.

13. PROFIT BEFORE TAX

	2017 RM'000	2016 RM'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of intangible assets	1,645	1,699
Auditors' remuneration:		
– Statutory audit – current year	130	142
– Statutory audit – prior year	10	–
– Other services	20	20
Depreciation of property, plant and equipment	10,590	9,818
Net loss on derivatives	3,110	126
Net loss/(gain) on foreign exchange:		
– Realised	4,190	(230)
– Unrealised	(455)	710
Personnel expenses (including key management personnel):		
– Wages, salaries and others	52,747	54,463
– Contributions to state plans	7,748	7,816
Operating lease rental in respect of:		
– Premises	2,059	2,481
– Equipment	5,197	5,049
– Vehicles	970	1,353
Write off of property, plant and equipment	32	–
Finance cost	2,995	3,120
(Reversal of provision)/provision for obsolescence of inventories	(2,830)	1,900

Notes to the Financial Statements

14. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	2017 RM'000	2016 RM'000
Directors:		
– Fees	276	263
– Remuneration	1,941	1,569
– Benefits-in-kind	178	34
– Other emoluments	1,796	83
	4,191	1,949
Other key management personnel:		
– Wages, salaries and others	3,433	3,741
– Contributions to state plans	246	283
	3,679	4,024
	7,870	5,973

Directors' remuneration includes salaries, allowance and all other Directors related expenses.

Other key management personnel comprise persons other than Directors of the Company, having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

15. TAX EXPENSE

Recognised in profit or loss

	Note	2017 RM'000	2016 RM'000
Current tax expense			
– current year		40,152	48,754
– over provision in prior year		–	(410)
		40,152	48,344
Deferred tax expense			
Origination and reversal of temporary differences	9	(350)	564
Total income tax expense		39,802	48,908

	2017 RM'000	2016 RM'000
Reconciliation of tax expense		
Profit before tax	157,519	197,982
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	37,805	47,516
Non-deductible expenses	2,048	2,342
Income not subject to tax	(51)	(186)
Over provision in prior year	–	(410)
Utilisation of tax incentive	–	(354)
	39,802	48,908

Notes to the Financial Statements

16. EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per ordinary share

The calculation of basic earnings per ordinary share as at 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	2017	2016
Net profit for the year (RM'000)	117,717	149,074
Average number of ordinary shares of RM1 each in issue ('000)	64,000	64,000
Basic and diluted earnings per ordinary share (sen)	183.9	232.9

There are no potential dilutive ordinary shares in issue as at 31 December 2017, and therefore, diluted earnings per share equal basic earnings per share.

17. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2017			
Single tier first interim 2017 ordinary	50.00	32,000	21.04.2017
Single tier first special interim 2017 ordinary	60.00	38,400	21.04.2017
One-time interim 2017 extraordinary	60.00	38,400	31.05.2017
Single tier second interim 2017 ordinary	50.00	32,000	27.12.2017
Single tier second special interim 2017 ordinary	60.00	38,400	27.12.2017
Total amount		179,200	
2016			
Single tier first interim 2016 ordinary	50.00	32,000	19.05.2016
Single tier first special interim 2016 ordinary	60.00	38,400	19.05.2016
Single tier second interim 2016 ordinary	50.00	32,000	29.12.2016
Single tier second special interim 2016 ordinary	60.00	38,400	29.12.2016
Total amount		140,800	

17. DIVIDENDS (CONTINUED)

After the end of the reporting period, the following dividends were declared on 27 February 2018 by the Directors. These dividends will be recognised in subsequent period.

	Sen per share	Total amount RM'000
2018		
First interim 2018 ordinary	50.00	32,000
First special interim 2018 ordinary	60.00	38,400
Total amount		70,400

18. OPERATING SEGMENTS

The Company operates principally in Malaysia and in one major business segment being manufacturing and distribution of a wide range of dairy products. The Company's Board of Directors (the chief operating decision maker) reviews internal management reports in respect of this segment at least on a quarterly basis.

Accordingly, no segment information is provided as the financial position and performance are as already shown in the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income.

Net revenues of approximately RM141.2 million (2016: RM130.3 million) are derived from a single external customer.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS

19.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables ("L&R");
- (b) Fair value through profit or loss ("FVTPL");
 - Held for trading ("HFT"); and
- (c) Financial liabilities measured at amortised cost ("FL").

	Carrying amount 2017 RM'000	L&R/ (FL) 2017 RM'000	FVTPL – HFT 2017 RM'000	Carrying amount 2016 RM'000	L&R/ (FL) 2016 RM'000	FVTPL – HFT 2016 RM'000
Financial assets						
Trade and other receivables	106,730	106,730	–	90,581	90,581	–
Cash and cash equivalents	61,339	61,339	–	213,619	213,619	–
	168,069	168,069	–	304,200	304,200	–
Financial liabilities						
Trade and other payables	(270,306)	(270,306)	–	(335,360)	(335,360)	–
Derivative financial liabilities	(3,181)	–	(3,181)	(71)	–	(71)
	(273,487)	(270,306)	(3,181)	(335,431)	(335,360)	(71)

19.2 Net gains and losses arising from financial instruments

	2017 RM'000	2016 RM'000
Net (losses)/gains from:		
Fair value through profit or loss	(3,110)	(126)
Loans and receivables	(743)	4,205
Financial liabilities measured at amortised cost	(2,879)	(3,297)
	(6,732)	782

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.3 Financial risk management

The Company has exposure to the following risks relating to financial instruments:

- Credit risk
- Liquidity risk
- Market risk

19.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company has adopted a policy of only dealing with creditworthy customers, based on evaluation of the customers' financial condition and credit history, as a means of mitigating the risk of financial loss from defaults. The Company's exposure to credit risk arises principally from its receivables from customers and related companies and deposits placed with licensed banks.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company performs credit evaluations on customers requiring credit over a certain amount.

The Company has entered into an arrangement with a licensed financial institution to enable certain trade customers to pay goods invoiced through a corporate purchasing card issued by the financial institution. This has resulted in the financial institution assuming the debts to the Company and credit risk is effectively transferred to the financial institution.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the carrying amounts in the statement of financial position.

A significant portion of these trade receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the trade receivables. Any trade receivables having significant balances past due more than 60 days which are deemed to have higher credit risk, are monitored individually. The Company believes that, generally no allowance for doubtful debts is necessary in respect of trade receivables that are neither past due nor impaired as these receivables are mainly arising from trade debtors that have good records of payment in the past.

Other receivables and deposits are neither past due nor impaired. The Company believes that generally no allowance for doubtful debts is necessary in respect of other receivables and deposits that are neither past due nor impaired as these receivables and deposits are mainly arising from debtors that have good records of payment in the past.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral (continued)

The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	70,429	–	70,429
Past due 1 – 30 days	18,042	–	18,042
Past due 31 – 90 days	4,751	–	4,751
Past due over 90 days	3,971	(3,953)	18
	97,193	(3,953)	93,240
2016			
Not past due	56,123	–	56,123
Past due 1 – 30 days	15,789	–	15,789
Past due 31 – 90 days	1,994	–	1,994
Past due over 90 days	4,633	(3,953)	680
	78,539	(3,953)	74,586

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2017 RM'000	2016 RM'000
At 1 January/31 December	3,953	3,953

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the trade receivable directly.

The individually impaired receivables relate to customers who are under ongoing litigation.

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.4 Credit risk (continued)

Related company balances

Risk management objectives, policies and processes for managing the risk

The Company undertakes trade and non-trade transactions with a number of related companies. The Company monitors the repayment from its related companies on a regular basis.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position. The Company regularly follows up on timely settlement of the amount owing by related companies. The related companies are not required to place any collateral with the Company.

As at the end of the reporting period, there was no indication that the amount owing by related companies is not recoverable as substantially all of these amounts are aged less than a year.

Deposits placed with licensed banks

Risk management objectives, policies and processes for managing the risk

Credit risk arises from deposits with licensed banks and financial institutions. The deposits are placed with credit-worthy financial institutions with high credit rating. The Company considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Company has only placed deposits with domestic licensed banks. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

As deposits are only placed with licensed banks, management does not expect the banks to fail to meet their obligations.

The deposits placed with licensed banks are unsecured.

Derivative financial assets

The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial asset in the statement of financial position.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables.

The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/coupon RM'000	Contractual cash flows RM'000	Under 1 Year RM'000
2017				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	270,306	–	270,306	270,306
<i>Derivative financial liabilities</i>				
Forward exchange contracts (net settled)	3,181	–	3,181	3,181
	273,487	–	273,487	273,487
2016				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	335,360	–	335,360	335,360
<i>Derivative financial liabilities</i>				
Forward exchange contracts (net settled)	71	–	71	71
	335,431	–	335,431	335,431

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Company's financial position or cash flows.

19.6.1 Currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily United States Dollar (USD), New Zealand Dollar (NZD), Singapore Dollar (SGD), Euro (EUR), Australia Dollar (AUD), Thai Baht (THB), Indonesia Rupiah (IDR) and Great Britain Pound (GBP).

Risk management objectives, policies and processes for managing the risk

The Company uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the end of the reporting period.

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

	USD RM'000	NZD RM'000	SGD RM'000	Denominated in EUR RM'000	AUD RM'000	THB RM'000	IDR RM'000	GBP RM'000
2017								
Amounts owing by related companies	1,091	-	-	167	-	-	-	-
Cash at bank	850	-	-	-	-	-	-	-
Trade payables	(2,454)	(577)	(28)	(1,298)	(874)	(4,636)	-	-
Amounts owing to related companies	(22,677)	-	(10)	(4,043)	-	-	(3,207)	-
	(23,190)	(577)	(38)	(5,174)	(874)	(4,636)	(3,207)	-
2016								
Amounts owing by related companies	2,600	-	-	3,283	-	-	-	-
Cash at bank	61,820	-	-	-	-	-	-	-
Trade payables	(8,694)	(467)	(160)	(1,481)	(1,200)	(13,999)	(1,586)	(218)
Amounts owing to related companies	(35,058)	-	-	(32)	-	(6)	(11,923)	-
	20,668	(467)	(160)	1,770	(1,200)	(14,005)	(13,509)	(218)

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.6 Market risk (continued)

19.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2016: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Equity		Profit or loss	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
USD	1,762	(1,571)	1,762	(1,571)
EUR	393	(135)	393	(135)
THB	352	1,064	352	1,064
IDR	244	1,027	244	1,027

A 10 % (2016: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant. The movements in other currency exchange rates are not expected to have any significant effect on the profit or loss.

19.6.2 Interest rate risk

The Company is not exposed to a risk of change in cash flows due to changes in interest rates as the Company has no borrowings as of the financial year end. The Company places short term deposits with licensed banks which are not significantly exposed to risk of changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

19.6.3 Other price risk

Other price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Other price risk comprises equity price risk and commodity price risk.

The Company is not exposed to any other price risk.

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.7 Fair value information

The carrying amounts of cash and cash equivalents and short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The table below analyses financial instruments carried at fair value together with their carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	
2017					
Financial liabilities					
Forward exchange contracts	–	(3,181)	–	(3,181)	(3,181)
2016					
Financial liabilities					
Forward exchange contracts	–	(71)	–	(71)	(71)

Level 1 fair value

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Derivatives

The fair value of forward exchange contracts is based on the quoted price provided by the licensed banks with which the foreign exchange contracts are entered into.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the asset or liability.

Notes to the Financial Statements

20. CAPITAL MANAGEMENT

The Company defines capital as share capital (Note 8) and this is unchanged from the prior year.

The Company's objectives when managing capital are to maintain a strong capital base and safeguard the Company's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as results from operating activities divided by total equity attributable to owners of the Company. The Board of Directors also monitors the level of dividends to shareholders.

The return on capital at 31 December 2017 and 31 December 2016 were as follows:

	2017	2016
Results from operating activities (RM'000)	157,405	196,594
Total equity attributable to owners of the Company (RM'000)	104,010	165,493
Return on capital (%)	151.3	118.8

The Company monitors and maintains a prudent level of total equity attributable to the owners of the Company to ensure it is adequate to balance the support for future development of the business and the payment of dividends to owners of the Company.

21. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2017 RM'000	2016 RM'000
Less than one year	5,097	4,329
Between one and five years	3,528	4,014
	8,625	8,343

Operating lease payments represent rentals payable by the Company for certain vehicles, forklifts, machinery and premises. Leases are negotiated and fixed for a term of between 3 to 5 years.

22. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel include all the Directors of the Company, and certain members of senior management of the Company.

The significant related party transactions of the Company are shown below. The balances related to the below transactions are shown in Note 6 and Note 10.

	2017 RM'000	2016 RM'000
Management fee paid to immediate holding company – FrieslandCampina DLMI Malaysia Holding B.V.	(116)	(112)
Purchase of fully packed dairy products and raw materials from fellow subsidiaries – FrieslandCampina Nederland Holding B.V.	(273,030)	(223,915)
– P.T. Frisian Flag Indonesia	(38,814)	(67,154)
– FrieslandCampina AMEA Pte Ltd	(97,313)	(67,742)
– FrieslandCampina Thailand	(4,000)	–
Sales of fully packed dairy products to fellow subsidiaries – FrieslandCampina Domo B.V.	3,957	4,275
– FrieslandCampina (Singapore) Pte Ltd	15,573	14,671
Know-how, trademark license and management support fees paid to fellow subsidiary – FrieslandCampina Nederland B.V.	(26,816)	(27,031)
Information, communication and technology services paid to fellow subsidiary – FrieslandCampina Nederland Holding B.V.	(14,265)	(10,669)
Finance shared services fee paid to fellow subsidiary – FrieslandCampina Nederland Holding B.V.	(1,623)	–
Shared services fee received from fellow subsidiary – FrieslandCampina Service Centre Asia Pacific Sdn Bhd	216	294

Statement by **Directors**

Pursuant to Section 251(2) of the Companies Act, 2016

We, Tarang Gupta and Bernardus Hermannus Maria Kodden, 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 70 to 109 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and financial performance of the Company for the financial year ended 31 December 2017 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
Tarang Gupta

.....
Bernardus Hermannus Maria Kodden

Petaling Jaya
27 February 2018

Statutory **Declaration**

Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Mirjam Joanna Ghislaine van Thiel, the Officer primarily responsible for the financial management of Dutch Lady Milk Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 70 to 109 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya, Selangor Darul Ehsan on 27 February 2018.

.....
Mirjam Joanna Ghislaine van Thiel

Before me:

Independent **Auditors' Report**

to the members of Dutch Lady Milk Industries Berhad (Incorporated in Malaysia) (Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Dutch Lady Milk Industries Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 70 to 109.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Company. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Independent Auditors' Report

to the members of Dutch Lady Milk Industries Berhad
(Incorporated in Malaysia)
(Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Use of estimates in revenue recognition to arising from rebates and discounts given to customers Our 2017 audit was planned and executed having regard to the fact that the operations of the Company were largely unchanged from the prior year. In light of this, our overall audit approach in terms of scoping and key audit matters were largely unchanged with continued focus over the estimates in revenue recognition arising from rebates and discounts given to customers. Revenue is recognised net of rebates and discounts. Rebates and discounts recognised are based on the expected entitlement earned up to reporting date under each customer trading agreement and promotions run.	• We evaluated and tested the operating effectiveness of controls in relation to the authorisation of rebates and promotional activities and the determination of year end accruals. • We evaluated the reasonableness of management's estimates on meeting volume or sales targets in relation to conditional rebates and promotional discounts. We have performed a comparison of actual sales volume and values achieved by the customer against the sales volume and values recorded. • We have tested the accruals of unclaimed rebates and promotional discounts to subsequent claims after the year end.
The Company has two categories of rebates and discounts where estimates are used: • Conditional rebates • Promotional discounts Conditional rebates and promotional discounts are triggered when certain conditions are met. The amount payable is based on conditions achieved, multiplied by rates contracted with each customer in their trading agreements. We focused on this area given the subjectivity in estimating the sales volumes or values on which to determine related accruals at the reporting date. Refer to Note 1(d)(i) (Use of estimates and judgements) and Note 2(l)(i).	There were no material exceptions noted from our procedures.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' Report and the 2017 Annual Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditors' Report

to the members of Dutch Lady Milk Industries Berhad
(Incorporated in Malaysia)
(Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

GAN WEE FONG
03253/01/2019 J
Chartered Accountant

Kuala Lumpur
27 February 2018

Recurrent Related **Party Transactions** of a revenue or trading nature

At the Fifty-Fourth Annual General Meeting of the Company held on 28 April 2017, the Company had obtained a general mandate from its shareholders' for recurrent related party transactions of a revenue or trading nature, to be entered into by the Company ("RRPT Mandate")

The RRPT Mandate is valid until the conclusion of the forthcoming Fifty-Fifth Annual General Meeting of the Company to be held on 26 April 2018. The Company proposes to seek a renewal of the existing RRPT Mandate and a new RRPT Mandate at its forthcoming Fifty-Fifth Annual General Meeting. The renewal of the existing RRPT Mandate and the new RRPT Mandate, if approved by the shareholders, will be valid until the conclusion of the Company's next Annual General Meeting. Details of the RRPT Mandate being sought is provided in the Circular to Shareholders dated 28 March 2018 sent together with the Annual Report.

Pursuant to paragraph 10.09(2)(b) and paragraph 3.1.5 of Practice Note 12 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, details of the recurrent related party transactions of a revenue or trading nature entered into during the financial year ended 31 December 2017 by the Company are as follows:

Related Party	Nature of Transaction	Value of Transaction RM'000
FrieslandCampina Nederland Holding B.V., the Netherlands and its subsidiaries	Purchase and sale of fully packed dairy products and raw materials	276,987
P.T. Frisian Flag Indonesia, Indonesia	Purchase of fully packed dairy products and raw materials	38,814
FrieslandCampina Foremost (Thailand) Pte Ltd	Purchase of fully packed dairy products	4,000
FrieslandCampina AMEA Pte Ltd., Singapore	Purchase of fully packed dairy products	97,313
FrieslandCampina (Singapore) Pte Ltd., Singapore	Sale of fully packed dairy products	15,573
FrieslandCampina Nederland B.V. (formerly known as Friesland Brands B.V.), the Netherlands	Know-how, Trademark licence and Management support fees	26,816
FrieslandCampina DLMI Malaysia Holding B.V., the Netherlands	Corporate fees	116
FrieslandCampina Nederland Holdings B.V.	ICT and finance services	15,888
FrieslandCampina Service Centre Asia Pacific Sdn. Bhd.	Shared services	216

Additional **Compliance Information**

OTHER COMPLIANCE INFORMATION

In compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the following information is provided:

MATERIAL CONTRACTS

For the financial year, there were no material contracts entered into by the Company (not being contracts entered into in the ordinary course of business) involving directors and substantial shareholders.

FEES FOR SERVICES RENDERED BY THE EXTERNAL AUDITORS

During the financial year, the Company paid the following fees for professional services rendered by the External Auditors to the Company:

1. In relation to audit services, RM139,724
2. In relation to non-audit services, RM20,000

UTILISATION OF PROCEEDS

The Company did not carry out any corporate exercise to raise funds during the financial year.

Analysis of Shareholdings

ANALYSIS OF SHAREHOLDINGS AS AT 27 FEB 2018

Class of Shares	Ordinary shares	
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 Shareholding
Less than 100 shares	174	3.58	1,533	0.00
100 to 1,000 shares	3,097	63.70	1,537,067	2.40
1,001 to 10,000 shares	1,358	27.93	4,712,463	7.36
10,001 to 100,000 shares	201	4.13	5,466,787	8.54
100,001 to 3,199,999(*)	30	0.62	15,741,150	24.60
3,200,000 & above(**)	2	0.04	36,541,000	57.10
	4,862	100.00	64,000,000	100.00

Note : * Less than 5% of Issued Holdings
 ** - 5% and above of Issued Holdings

Name of 30 Largest Shareholders	No. Of Shares	% Of Holdings
1. FrieslandCampina DLMI Malaysia Holding B.V.	32,614,800	50.96
2. Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	3,926,200	6.13
3. Amanahraya Trustees Berhad Amanah Saham Bumiputera	3,000,000	4.69
4. Amanah Trustees Berhad Amanah Saham Malaysia	2,323,400	3.63
5. Maybank Nominees Tempatan Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	1,995,400	3.12
6. Amanahraya Trustees Berhad Amanah Saham Gemilang For Amanah Saham Kesihatan	862,600	1.35
7. Amanahraya Trustees Berhad Amanah Saham Didik	770,700	1.20
8. Kumpulan Wang Persaraan (Diperbadankan)	592,800	0.93
9. Yong Siew Lee	574,000	0.90
10. Amanah Raya Trustees Berhad Public Islamic Treasures Growth Fund	493,800	0.77

Name of 30 Largest Shareholders		No. Of Shares	% Of Holdings
11.	Yeo Khee Bee	442,900	0.69
12.	Amanahraya Trustees Berhad Amanah Saham Nasional 3 Imbang	419,250	0.66
13.	Aun Huat & Brothers Sdn Berhad	416,500	0.65
14.	Maybank Nominees (Tempatan Sdn Bhd) National Trust Fund (IFM Maybank)	380,000	0.59
15.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Aun Huat & Brothers Sdn Berhad (E-IMO/BCM)	341,000	0.53
16.	DB (Malaysia) Nominee (Asing) Sdn Bhd State Street London Fund LYFB For BMO LGM Global Emerging Markets Smaller Companies Fund (BMO INV II IRL)	331,000	0.52
17.	Amanahraya Trustees Berhad Amanah Saham Gemilang For Amanah Saham Persaraan	270,500	0.42
18.	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund W4BO For WASATCH International Opportunities Fund	257,500	0.40
19.	Amanah Saham Trustees Berhad Amanah Saham Gemilang For Amanah Saham Pendidikan	235,000	0.37
20.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for Invesco Asean Equity Fund	200,000	0.31
21.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chan See Min Realty Sdn Bhd	200,000	0.31
22.	Maybank Nominees (Tempatan) Sdn Bhd National Trust Fund (IFM Eastspring) (410140)	184,800	0.29
23.	Quek Guat Kwee	162,400	0.25
24.	Yayasan Guru Tun Hussein Onn	156,300	0.24
25.	CIMB Commerce Trustee Berhad Public Focus Select Fund	154,900	0.24
26.	Amanahraya Trustees Berhad Public Dividend Select Fund	152,900	0.24
27.	Chow Kok Meng	150,000	0.23
28.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (RHB Islamic)	142,200	0.22
29.	Citigroup Nominees (Asing) Sdn Bhd CBNY For DFA Emerging Markets Small Cap Series	141,100	0.22
30.	Amanahraya Trustees Berhad Public Islamic Emerging Opportunities Fund	139,300	0.22
Total		52,031,250	81.30

Analysis of Shareholdings

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

Name	Direct	%	Indirect	%
1. FrieslandCampina DLMI Malaysia Holding B.V.	32,614,800	50.96	0	0
2. Employees Provident Fund Board	4,046,400	6.36	0	0

DIRECTORS SHAREHOLDINGS

Name	Direct	%	Indirect	%
1. Dato' Zainal Abidin bin Putih	–	–	–	–
2. Tarang Gupta	–	–	–	–
3. Foo Swee Leng	–	–	–	–
4. Boey Tak Kong	–	–	–	–
5. Dato' Dr. Mhd. Nordin bin Mohd. Nor	–	–	–	–
6. Saw Chooi Lee	–	–	–	–
7. Bernardus Hermannus Maria Kodden	–	–	–	–

PARTICULARS OF PROPERTIES AS AT 31 DECEMBER 2017

Location 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	358,482 sq. ft.	74,135 sq. ft.
Tenure leasehold land	Leasehold land expiring in the year 2059	Leasehold land expiring in the year 2059
Date of acquisition	21.10.1960 & 19.03.1980	12.01.1989
Age of property	Between 38 years to 58 years	29 years
Net Book Value (RM 'mln)	26.0 mln	3.2 mln

Proxy Form



CDS Account No	
No. of shares held	

Dutch Lady Milk Industries Berhad (5063-V) (incorporated in Malaysia under the then Companies Ordinances, 1940 - 1946)

I / We
(full name in block letters, NRIC No. / Company No.)

of

being a member/members of DUTCH LADY MILK INDUSTRIES BERHAD hereby appoint:

Full name (in block letters)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

And/or (delete as appropriate)

Full name (in block letters)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Fifty-Fifth Annual General Meeting of the Company to be held at Atlanta Ballroom, Level 3, Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Thursday, 26 April 2018 at 9 a.m. and any adjournment thereof, in respect of my/our shareholding in the manner indicated below:

RESOLUTION NO.	RESOLUTION	FOR	AGAINST
Resolution 1	Proposed increase and payment of Directors' fees for the financial year ending 31 December 2018, to be paid quarterly		
Resolution 2	Payment of Directors' benefits (other than Directors' fees) for the period from 1 January 2018 until the conclusion of the next Annual General Meeting of the Company		
Resolution 3	Re-election of Dato' Zainal Abidin bin Putih		
Resolution 4	Re-election of Boey Tak Kong		
Resolution 5	Re-election of Tarang Gupta		
Resolution 6	Re-election of Bernardus Hermannus Maria Kodden		
Resolution 7	Re-election of Dato' Dr. Rosini binti Alias		
Resolution 8	Re-appointment of PricewaterhouseCoopers PLT as the Company's Auditors		
Resolution 9	Proposed New and Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Resolution 10	Retention of Boey Tak Kong as an Independent Director of the Company		

Please indicate with an "X" in the space provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific instruction, your proxy will vote or abstain as he/she thinks fit.

Signed thisday of 2018

Signatures(s) of Shareholder/Attorney
(if Shareholder is a corporation, this part should be executed under seal or under the hand of its officer or attorney duly authorised)

Notes:

1. 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 shall not apply. A proxy appointed to attend and vote at the Meeting shall have the same rights as a Member to speak at the Meeting.
2. Save for an Exempt Authorised Nominee as defined under the Central Depositories Act which may appoint multiple proxies in respect of each Omnibus Account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member (including an authorised nominee) shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting. In any case, where more than one (1) proxy is appointed, such appointment shall not be valid unless the proportion of the holdings represented by each proxy is specified.
3. This instrument appointing the proxy must be signed by the Member or the attorney duly authorised in writing, or if the appointer is a corporation, the instrument must be executed under its common seal or under the hand of its officer or attorney duly authorised.
4. Only Members, whose names appearing the Record of Depositors as at 20 April 2018 (General Meeting Record of Depositors) shall be entitled to attend and vote at the Meeting or appoint proxy/proxies to attend and/or vote on his behalf.
5. To be valid, the instrument appointing the proxy, duly completed (and, if applicable, the power of attorney or other authority under which it is signed or notorially certified copy of that power of attorney) must be deposited at the office of Symphony Share Registrars Sdn Bhd at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor (Helpdesk No. 03-7849 0777, Fax No. 03-7841 8151/8152), not less than 48 hours before the time set for holding the Meeting or any adjournment thereof (or in the case of poll, before the time appointed for the taking of the poll).
6. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements, all resolutions set out in the Notice of the 55th Annual General Meeting of the Company will be put to vote by way of poll.
7. Registration and Door Gifts

Registration will commence at 7.30 a.m. on the day of the Meeting. Members and Proxies are advised to be punctual. For verification purposes, Members and Proxies are required to produce their original identification card at the registration counter.

In conformity with past practice, please take note that each Member or Proxy who is present shall be entitled to one (1) door gift only upon registration, irrespective of the number of Members he/she represent (e.g. in the event a Member and/or Proxy represents himself and/or two or more Members, he/she shall be entitled to one (1) door gift only).

Please fold here to seal

STAMP

SHARE REGISTRAR**DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)**

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya,
Selangor Darul Ehsan.

Please fold here to seal



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Level 5, Quill 9, 112, Jalan Semangat, 46300 Petaling Jaya, Selangor Darul Ehsan, Malaysia

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