

PPB GROUP BERHAD **ANNUAL REPORT '03**



PPB GROUP BERHAD

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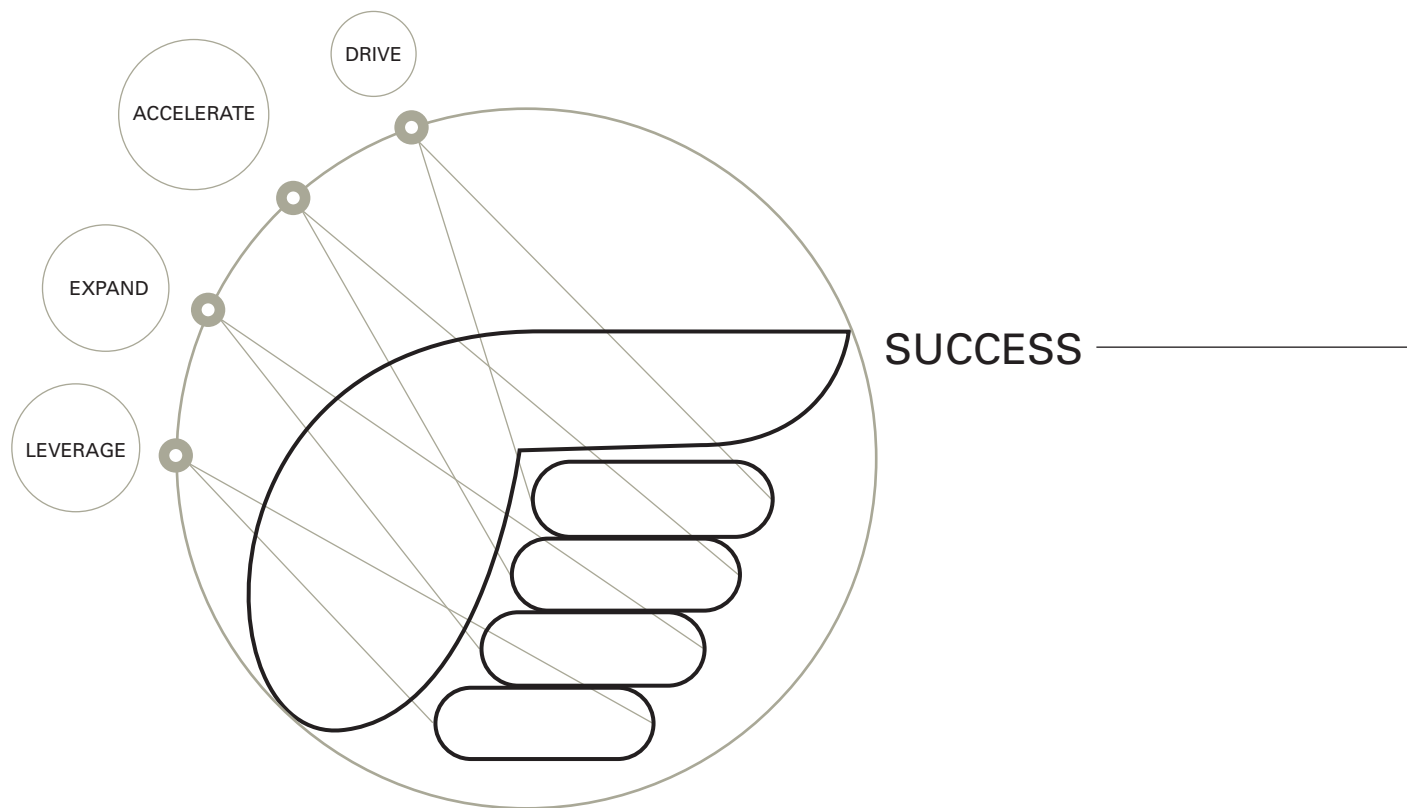
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TO LEAD, is to crystalise and harness the creative output of others into significant results. Leaders seek opportunities where none exists, nurture talent when none is required and motivate others when chaos reign. Leaders communicate its vision and create a well-defined path that can be benchmarked by many.



PPB, the epitome of leadership and success, has provided the platform on which successful companies are built upon. Through its innovative thinking and strategic investments, it has capitalized on its sound infrastructure to build a world-class organization generating higher returns to its shareholders. PPB will continue to capitalize on new opportunities and expand its global presence.

LEVERAGE on its core businesses

PPB leverages on its core businesses and strategic partnerships to provide continued innovation in products and services to its customers.

EXPAND market presence

In achieving global competitiveness, PPB continues to expand its market presence in new and emerging markets.

ACCELERATE new strategies

New business threats as well as trends are capitalized upon through implementation of new strategies and thought leadership.

DRIVE talent and creativeness

PPB's strength lies in its people who are driven to greater heights and creativeness through a harmonious working environment and fair business practices.



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CHAIRMAN'S STATEMENT

Dear Shareholders,
On behalf of the Board of Directors, I am pleased to report that PPB Group Berhad has delivered another year of exceptional growth. The profit achieved in year 2003 provides direct evidence of the continued underlying strength of the Group's major businesses.

We are also pleased with the continued growth in the Company's share price, which reflects the increased earnings of the Group as well as the increased confidence placed on PPB Group Berhad by the investment community. This is the result of the Group's efforts to enhance investor relations and its overriding goal to improve returns to shareholders.



'03

Ong le Cheong
Executive Chairman



FINANCIAL RESULTS

PPB Group Berhad achieved a much improved pre-tax profit of RM707.4 million, an increase of 41% over previous year's profit of RM500.8 million.

The better performance is attributed to increased profits from the Group's core businesses in sugar, edible oils refining and oil palm plantations. Revenue grew by 19% to RM9.32 billion from RM7.86 billion, driven mainly by the higher production and selling prices of palm oil and its related products.

Year-on-year, net profit improved by 53% to RM371.3 million equivalent to earnings per share of 75.7 sen. Shareholders funds strengthened to RM2.99 billion from RM2.70 billion. The strong performance from the Group's core operations generated significantly higher operating cashflows contributing to a net cash position of RM249.8 million as at 31 December 2003 compared with RM17.1 million in the previous year.

Benefiting from the improved financial performance of the year, net tangible assets per share rose by 11% to RM6.02 from RM5.43.



DIVIDENDS

The Board is pleased to recommend a final dividend of 16 sen per share comprising 11 sen less tax and 5 sen tax exempt payable on 28 May 2004. Including the interim dividend of 9 sen per share (5 sen less tax and 4 sen tax exempt) paid on 26 September 2003, total dividend declared for the year ended 31 December 2003 would amount to 25 sen per share (16 sen less tax and 9 sen tax exempt).

The recommended dividend is arrived at after taking into consideration the balance needed to provide shareholders with a reasonable return and setting aside funds for financing the cash portion of FFM's privatization exercise of RM204 million.

Net dividend per share for the year of 20.5 sen represents a dividend payout of 72% of the Company earnings.



CORPORATE DEVELOPMENTS

On 10 November 2003, PPB Group Berhad (PPB) announced its intention to privatise FFM Berhad (FFM) by acquiring the remaining shares not owned by PPB which as at 12 September 2003 represented 45.77% of the total share capital of FFM by way of an FFM's members' scheme of arrangement under Section 176 of the Companies Act, 1965. The proposed privatisation entails a share exchange of one (1) new PPB share plus cash of RM2.00 for every one (1) FFM share held by the shareholders of FFM other than PPB.

The rationale of this proposed privatisation is to enhance the long-term shareholder value of PPB through increased future earnings to PPB Group from the consolidation of 100% of the earnings of FFM. The privatisation will also create an enlarged PPB Group with a proforma combined shareholders funds in excess of RM3.6 billion and a significantly enhanced market capitalization, which is expected to generate greater investors' interest. The larger investor base resulting from pooling together investors of both PPB and FFM will also improve the liquidity of PPB shares.

The Privatisation exercise, which is subject to approvals from the relevant authorities and the respective shareholders of PPB and FFM is expected to be completed by the third quarter of 2004.

Malaysian Bulk Carriers Berhad (MBC), one of the largest shipping companies in Malaysia and in which the Group has 14% equity interest was listed on the Main Board of the MSEC on 2 December 2003. The MBC shares made a strong debut at listing with an opening price of RM1.87, representing a 57% premium over the retail offer price of RM1.19.

Subsequent to MBC, another of the Group's investment, Redtone International Berhad (Redtone), which is the largest provider of discounted call service and developer and seller of telecom equipment was listed on the MESDAQ on 9 January 2004. Redtone shares opened sharply higher at RM1.19, 89% above the theoretical ex-bonus listing price of RM0.63. To-date, the Group has 12% equity interest in Redtone.



OVERVIEW OF OPERATIONS

Food Manufacturing Activities

Profit contribution from the sugar operations improved for the year due to favourable commodity prices and higher sales. The Group's flour sales including Vietnam Flour Mills Ltd improved by 2% from the previous year. Construction works for FFM's second flour mill with a daily wheat milling capacity of 500mt commenced in December 2003 and the mill is expected to be commissioned in the middle of 2005. Feed sales, too, increased by 2% in 2003. Construction of a new feedmill at Pulau Indah commenced in December 2003 and is expected to be operational in the second quarter of 2005.

Livestock Farming

The year 2003 started with dismal demand dragging day-old-chick prices down to RM0.50 from RM1.20 each in the year before. Market conditions turned around with the outbreak of Avian Influenza in Holland in the second quarter which led to increased European demand for poultry products in the surrounding region. The Trong Layer farm continued to consolidate in response to the oversupply of table eggs in the market. Profit margins have also been impacted by steep rises in the feed prices. To overcome the difficult business condition, management has taken active steps to promote the "Seri Murni" brand of premium antibiotic-free eggs.

Edible Oils Refining And Trading

The Group's refineries including its associate processed 3.6 million mt of refined edible oils representing a marginal increase of 2.4% over the previous year. Profit performance improved significantly mainly due to the timely hedging of raw materials and the better prices of palm oil products obtained as a result of increasing demand from the major importing countries such as India and China as well as due to palm oil's competitive pricing against soybean oil products which was at high premiums.

Oil Palm Plantations

Crude palm oil prices continued to trend upwards in 2003 due to a convergence of positive factors contributing to a 12% increase in the actual CPO price realized by PPBOP to RM1,456 per tonne from RM1,299 per tonne achieved in the previous year. Production of fresh fruit bunches improved by 9% to 1,150,300 tonnes while CPO production rose by 4% to 289,535 tonnes. The better palm product prices together with higher crop production and extraction rates boosted PPBOP's pre-tax profit to RM199.5 million from RM158 million the year before.

The Group has been steadily expanding its landbank with the acquisition of Kalimantan Palm Industries Sdn Bhd which owns 32,200 hectares of land proposed for the development of oil palm in Central Kalimantan, Indonesia and Jasa Karya Sdn Bhd which owns 3,642 hectares of land in District of Beluran, Sabah. Both acquisitions will increase the Group's plantable landbank to 117,000 hectares of which 42,000 is available for future planting.



Environmental Engineering, Waste Management And Utilities

Year 2003 has been a challenging one for the environmental engineering business. Nevertheless, this division managed to contribute operating profits of RM16.6 million to the Group against RM19.6 million in the year before. Chemquest Group, through its overseas subsidiary, Kerry Utilities Limited, has on 16 July 2003 won the bid for the RMB201 million Lugouqiao Sewage Treatment Plant (Phase 1) with a treatment capacity of 100,000 metric³/day, in Beijing, China. This award marks the beginning of the Group's expansion into the environmental business in China.

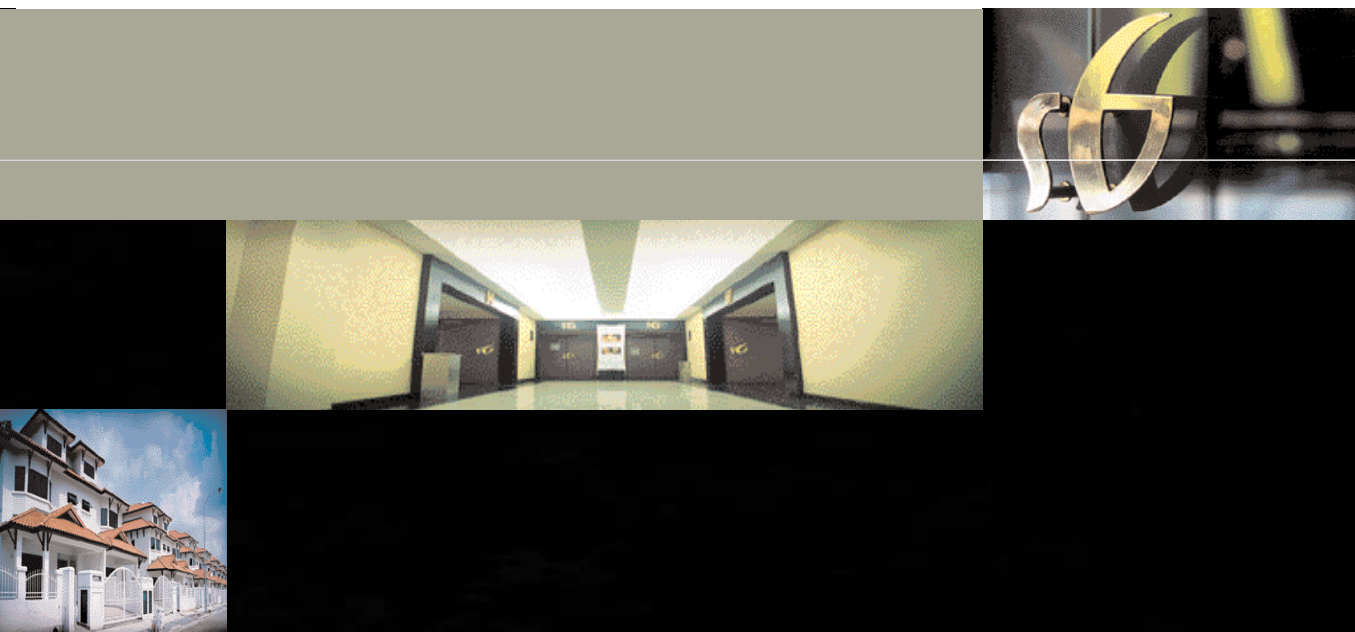
During the year, Chemquest Group also secured the Bukit Badong Distribution Supply System (Stage 2), Wangsa Maju Pumping Station and three projects in the Sg. Semenyih Water Treatment Plant for a total contract value in excess of RM100 million.

Chemquest Group's profit including its manufacturing division was significantly lower mainly due to higher losses suffered by its glove manufacturing activity faced with escalating rubber prices and poor glove retail prices. The glove operations also incurred a goodwill write-off of RM6.5 million during the year. Management has been taking aggressive steps to reduce losses by scaling down operations and undertaking stringent cost controls.

Film Exhibition And Distribution

The Group's cinema chain under Golden Screen Cinemas (GSC) performed exceptionally well due to the release of a string of blockbuster films throughout the year. Box-office collections improved by 20% over the previous year resulting from higher admissions. The government's piracy-eradication efforts through consistent raids on manufacturers and traders of bootleg copies have also helped encourage customers' return to the big screen.

To provide increased convenience to moviegoers, GSC recently launched its intelligent SMS (iSMS) where Maxis subscribers are able to reserve tickets with ease. In January 2004, GSC opened its second flagship cineplex of 12 screens at Plaza Gurney, Penang to further expand its northern market share. GSC has also entered into an equal joint venture with Berjaya Times Square Sdn Bhd to operate a new cineplex at Berjaya Times Square which is scheduled for opening in the second half of 2004.



Property Investment And Development

The Group's property investment in Taman Segar managed to maintain its profit performance from its residential development at Phase I and II of the Bukit Segar project of 299 units comprising primarily of semi-detached houses and bungalows, which has to-date registered sales of 75%. Its other development of 577 units of low cost houses has been completely sold.

Phase I units have been handed over to the homeowners in April 2003 while Phase II units and the low cost houses will be delivered by middle of 2004. The remaining landbank of 22 acres in Taman Segar has been earmarked for exclusive bungalows and its launch is expected to be in the third quarter of 2004.

Prospects And Challenges For 2004

Year 2004 holds promise of continued growth for the Malaysian economy against the backdrop of a steady recovery in the global markets. The positive effects of the government's pro-growth fiscal stimulus, easy monetary policies and low inflation will continue to provide a conducive environment to foster growth. The country's exports are expected to improve from the healthier global economy while private consumption, boosted by the strengthening of both consumer and business confidence, will further drive economic growth.

Malaysia's GDP growth is envisaged to further improve to 5.8% in 2004 and this should augur well for the Group's core businesses. Profits from the Group's core businesses in food manufacturing and oil palm plantations are dependent on favourable commodity prices, which in turn are determined by the supply and demand in world markets. To mitigate the negative effects of fluctuating commodity prices, the Group has taken proactive measures to continually improve competitiveness including investments to upgrade its factories, reduce operating cost, improve efficiency of distribution channels and update its marketing strategies.

Based on current commodity prices and higher expected production from the plantations together with the Group's effective management, the Board is optimistic that the Group is well positioned to maintain its good performance.



Chairman's Statement



The Board

On behalf of the Board of Directors, I wish to welcome YM Raja Dato' Seri Abdul Aziz bin Raja Salim as an Independent Non-Executive Director. We are confident that with his wealth of experience and knowledge in the finance and business field, he will further enhance the effectiveness of the Board's deliberations and hence contribute to the ongoing success of the Group.

Special Thanks

On behalf of the Board of Directors, I wish to take this opportunity to acknowledge the contribution of our Group's employees for their strong dedication, support and hard work without which, the exceptional results achieved today would not have been possible.

I would also like to thank my fellow directors for their commitment and guidance in helping the Group achieve this level of success.

To our shareholders, business partners and other stakeholders, I wish to extend my sincere appreciation for your continued support and confidence in PPB GROUP BERHAD.



Board of Directors

Ong Ie Cheong
Executive Chairman

Datuk Oh Siew Nam
Deputy Chairman

Dato' Lim Chee Wah
Executive Director

Dato Sri Liang Kim Bang
Independent Non-Executive Director

YM Raja Dato' Seri Abdul Aziz bin Raja Salim
Independent Non-Executive Director

Ang Guan Seng
Non-Independent Non-Executive Director

Tan Yew Jin
Non-Independent Non-Executive Director

Michael Oh Aik Teong
(Alternate Director to Mr Ang Guan Seng)
Non-Independent Non-Executive Director

Koh Mei Lee
(Alternate Director to Mr Tan Yew Jin)
Non-Independent Executive Director

Audit Committee

Dato Sri Liang Kim Bang
Chairman

Ang Guan Seng

YM Raja Dato' Seri Abdul Aziz bin Raja Salim

Nomination Committee

Ang Guan Seng
Chairman

Dato Sri Liang Kim Bang

YM Raja Dato' Seri Abdul Aziz bin Raja Salim

Remuneration Committee

Dato Sri Liang Kim Bang
Chairman

Ang Guan Seng

Ong Ie Cheong

Secretary

Tan Teong Boon

Registered Office

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Fax: 03-2141 8242
Website: www.ppbgroup.com

Solicitors

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8th Floor Menara Safuan
80 Jalan Ampang
50450 Kuala Lumpur

Lee Hishammuddin
Level 16 Menara Phileo
189 Jalan Tun Razak
50400 Kuala Lumpur

Principal Bankers

Malayan Banking Berhad
Bumiputra-Commerce Bank Bhd

Auditors

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7th Floor South Block
Wisma Selangor Dredging
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50450 Kuala Lumpur

Registrar

PPB Corporate Services Sdn Bhd
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Stock Exchange Listing

Malaysia Securities Exchange Berhad
Main Board
Sector: Consumer Products
Stock Number: 4065
ISIN: MYL406500008
Reuters Code: PEPT.KL



BOARD OF DIRECTORS' PROFILE

MR ONG IE CHEONG

Ong Ie Cheong, 62, a Malaysian, is a Non-Independent Executive Director and Executive Chairman of PPB Group Berhad. He was appointed to the Board on 18 September 1985 and was the Deputy Managing Director of PPB from 1993 before being appointed Chairman and Managing Director in 2000 and subsequently as Executive Chairman in 2001. He is a member of the Remuneration Committee of the Company. Mr Ong is also the Managing Director of Central Sugars Refinery Sdn Bhd since 1983. In addition,

he holds directorships in PPB Oil Palms Berhad, Tradewinds (M) Bhd and Kuok Brothers Sdn Bhd. Mr Ong graduated from the University of Malaya with a Bachelor of Science degree.

DATUK OH SIEW NAM

Y. Bhg. Datuk Oh Siew Nam, 65, a Malaysian, is a Non-Independent Executive Director and Deputy Chairman of PPB Group Berhad. He was appointed to the Board on 2 March 1988 and was the Managing Director of the Company from 1993 to 1999. Datuk Oh joined FFM Group in 1968 and is presently the

Executive Chairman of FFM Berhad. He is also a Director of Kuok Brothers Sdn Bhd since 1998 and a Board Member of Bank Negara Malaysia since 1989. He served as a Member of the Capital Issues Committee from 1990 to 1993 and the National Economic Consultative Council II (MAPEN II). He was the Assistant Controller of Telecom Malaysia for five (5) years from 1963. He holds a Bachelor of Engineering (Honours) degree in Electrical Engineering from the University of Canterbury, New Zealand.



DATO' LIM CHEE WAH

Y. Bhg. Dato' Lim Chee Wah, 64, a Malaysian, is a Non-Independent Executive Director of PPB Group Berhad. He was appointed to the Board on 2 March 1988. Dato' Lim is the Executive Chairman of Malayan Sugar Manufacturing Company Berhad and Chairman of Jerneh Asia Berhad. He is also a Director of Malaysian Bulk Carriers Berhad and Kuok Brothers Sdn Bhd and a trustee of Kuok Foundation Berhad. He graduated from the University of Malaya with a Bachelor of Economics (Honours) degree.

DATO SRI LIANG KIM BANG

Y. Bhg. Dato Sri Liang Kim Bang, 67, a Malaysian, is an Independent Non-Executive Director of PPB Group Berhad. He was appointed to the Board on 4 January 1995. He is the Chairman of the Audit and Remuneration Committees and a member of the Nomination Committee of the Company. Dato Sri Liang held various positions in the Sarawak Civil service and prior to his retirement in 1994, was the Sarawak State Financial Secretary. Presently, he is a Non-Executive Chairman of CMS Steel

Berhad and an Independent Non-Executive Director of PPB Oil Palms Berhad, Malaysia International Shipping Corporation Berhad, Cahya Mata Sarawak Berhad, Rashid Hussain Berhad, CMS Trust Management Berhad and several other companies. Dato Sri Liang graduated from the University of Malaya with Bachelor of Arts and Bachelor of Arts (Honours) degrees. He also undertook a post-graduate course in Public Administration at the University of Cambridge, England.



Board of Directors' Profile

YM RAJA DATO' SERI ABDUL AZIZ BIN RAJA SALIM

YM Raja Dato' Seri Abdul Aziz bin Raja Salim, 65, a Malaysian, is an Independent Non-Executive Director of PPB Group Berhad. He was appointed to the Board on 12 May 2003. He is also a member of the Audit Committee and Nomination Committee of the Company. YM Raja Aziz was a former Director-General of Inland Revenue and a former Accountant-General of Malaysia. He is a Fellow Member of the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants of the United Kingdom, and a member of the Malaysian Institute of Accountants and Malaysian Institute of Taxation. He also serves on the Board of Amanah Saham Mara Berhad as well as several listed

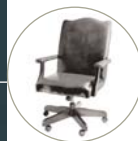
companies, namely, PPB Oil Palms Berhad, Jerneh Asia Berhad, K&N Kenanga Holdings Berhad, Camerlin Group Berhad, Tasek Corporation Berhad, Gamuda Berhad, Matsushita Electric Company (M) Berhad and Southern Steel Berhad.

MR ANG GUAN SENG

Ang Guan Seng, 65, a Malaysian, is a Non-Independent Non-Executive Director of PPB Group Berhad. He was appointed to the Board on 8 July 1998. Mr Ang is the Chairman of the Nomination Committee and also a member of the Audit Committee and Remuneration Committee of the Company. He is the Managing Director of Petaling Garden Berhad and sits on the Boards of various public and private companies which include, amongst others, Malayan United Industries Berhad and Parkway Holdings Limited.

MR TAN YEW JIN

Tan Yew Jin, 63, a Malaysian, is a Non-Independent Non-Executive Director of PPB Group Berhad. He joined the Board on 12 May 2001. Mr Tan is the Executive Chairman of PPB Oil Palms Berhad. He also serves on the Boards of FFM Berhad, Jerneh Asia Berhad and Tradewinds (M) Berhad. Mr Tan is an Accountant by profession and a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants, CPA Australia and the Institute of Certified Public Accountants of Singapore.



MR MICHAEL OH AIK TEONG

Michael Oh Aik Teong, 46, a Malaysian, is a Non-Independent Non-Executive Director of PPB Group Berhad. He was appointed to the Board as an Alternate Director on 16 May 2002 and is presently an Alternate Director to Mr Ang Guan Seng. Mr Oh joined the Group in 1992 to help establish the utilities and environmental engineering division of the Group and is presently the Managing Director of Chemquest Group. He had previously worked for Exxon Chemicals Sdn Bhd for 10 years. Mr Oh also serves on

the Board of Redtone International Berhad. He graduated from the University of Malaya with a Bachelor of Engineering (Honours) degree, majoring in chemicals.

MS KOH MEI LEE

Koh Mei Lee, 39, a Malaysian, is a Non-Independent Executive Director of PPB Group Berhad. She was appointed to the Board as an Alternate Director to Mr Tan Yew Jin on 16 May 2002. Ms Koh joined the Company in 1990 as a Treasury Executive and over the years has risen from the ranks to her current position as Senior Manager,

Corporate Affairs Department. She has been instrumental in the development of the Corporate Affairs Department and her responsibilities include fostering investor relations, corporate development and restructuring as well as mergers and acquisitions. She is also the Chief Executive of Golden Screen Cinemas Sdn Bhd. She graduated from the University of Montevallo, USA with a Bachelor of Business Administration degree (Summa Cum Laude).

None of the above Directors has any family relationship with any other Director and/or major shareholder of PPB and has no conflict of interest with PPB. The above Directors have no conviction for any offences within the past ten (10) years.