dutch lady milk industries berhad


# Laporan Tahunan 2010 Annual Report

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

www.frieslandcampina.com

# contents


Susu segar
DUTCH LADY®
Fresh
milk
Susu segar
MADE FROM
Fresh Milk
Kalsium
Protein
Kandungan /
Content:
1 litre

# notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Forty-Eighth Annual General Meeting of the Company will be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan, on Thursday, 19 May 2011 at 10.00 a.m. for the purpose of transacting the following business:

**AGENDA**

**AS ORDINARY BUSINESS**

**Ordinary resolution 1**

1 To receive the Audited Financial Statements for the financial year ended 31 December 2010, together with the Reports of the Directors and Auditors thereon.

**Ordinary resolution 2**

2 To approve the payment of a final dividend of gross 10.0 sen per share, less income tax, and a tax exempt dividend of 5.0 sen per share, in respect of the financial year ended 31 December 2010.

**Ordinary resolution 3**

3 To approve the increase and payment of Directors' fees of RM174,000 for the financial year ended 31 December 2010.

**Ordinary resolution 4 & 5**

4 To re-elect the following Directors, who retire by rotation pursuant to Article 94(a) of the Company's Articles of Association:-

(i) Mr. Foo Swee Leng
(ii) Dato' Dr. Mhd. Nordin bin Mohd. Nor

**Ordinary resolution 6**

5 To re-elect Mr Kapil Garg, who was appointed during the year and retires pursuant to Article 97 of the Company's Articles of Association.

**Ordinary resolution 7**

6 To re-appoint Messrs KPMG (AF: 0758) as the Company's auditors and to authorise the Directors to fix their remuneration.

**AS SPECIAL BUSINESS**

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

**Ordinary resolution 8**

7 **PROPOSED NEW AND EXISTING 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 27 April 2011 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 143(1) of the Malaysian Companies Act, 1965 ("the Act")(but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is earlier.

**AND THAT** the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary 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."

8 To transact any other business for which due notice shall have been given.

**Notice of Dividend Entitlement**

NOTICE IS ALSO HEREBY GIVEN that a final dividend of gross 10.0 sen per share, less income tax, and a tax exempt dividend of 5.0 sen per share, in respect of the financial year ended 31 December 2010, if approved by the shareholders, will be paid on 1 July 2011 to shareholders whose names appear in the Register of Members and Record of Depositors of the Company at the close of business on 3 June 2011.

A Depositor shall qualify for entitlement only in respect of:

(a) Shares transferred to the Depositor's securities account before 4.00 p.m. on 3 June 2011 in respect of ordinary transfers; and

(b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

By Order of the Board

***HUANG SHI CHIN (MIA 3891)***
***CHIN NGEOK MUI (MAICSA 7003178)***
Joint Secretaries
Petaling Jaya
27 April 2011


Notes:

*A Member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy / proxies to attend and vote instead of him. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.*

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

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

*To be valid, the instrument appointing a proxy, duly completed (and, if applicable, the power of attorney or other authority under which it is signed or notarially certified copy of that power of authority) must be deposited at the Registered Office of the Company not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.*

**Explanatory Notes on Special Business:**

**Ordinary resolution 8**

**Proposed New And Existing Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature.**

Please refer to the Circular to Shareholders dated 27 April 2011.

# corporate information

## BOARD OF DIRECTORS

### CHAIRMAN

Dato' Zainal Abidin bin Putih
Independent Non-Executive Director

### DIRECTORS

Sebastiaan G. van den Berg
Managing Director

Dato' Dr. Mhd. Nordin bin Mohd. Nor
Non-Independent Non-Executive Director

Kapil Garg
Non-Independent Non-Executive Director

Foo Swee Leng
Independent Non-Executive Director

Huang Shi Chin
Executive Director

Boey Tak Kong
Independent Non-Executive Director

### JOINT SECRETARIES

Huang Shi Chin
(MIA 3891)

Chin Ngeok Mui
(MAICSA 7003178)

## AUDIT COMMITTEE

### CHAIRMAN

Boey Tak Kong

### MEMBERS

Dato' Zainal Abidin bin Putih
Foo Swee Leng
Dato' Dr. Mhd. Nordin bin Mohd. Nor

## REMUNERATION COMMITTEE

### CHAIRMAN

Dato' Dr. Mhd. Nordin bin Mohd. Nor

### MEMBERS

Foo Swee Leng
Sebastiaan G. van den Berg

## NOMINATION COMMITTEE

### CHAIRMAN

Kapil Garg

### MEMBERS

Dato' Zainal Abidin bin Putih
Boey Tak Kong

## REGISTERED OFFICE

13, Jalan Semangat
46200 Petaling Jaya
Selangor Darul Ehsan
Telephone : 03-7953 2600
Facsimile : 03-7953 2700

## 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 : 03-7841 8000
Facsimile : 03-7841 8151/8152

## WEBSITE

www.dutchlady.com.my

## STOCK EXCHANGE LISTING

MAIN MARKET OF BURSA MALAYSIA
SECURITIES BERHAD

## AUDITORS

KPMG (AF: 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

## PRINCIPAL BANKERS

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

THE ROYAL BANK OF SCOTLAND BERHAD
Level 1, Menara Maxis
Kuala Lumpur City Centre
50088 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


0678

# chairman's statement

# chairman's statement

On behalf of the Board of Directors, I have pleasure in presenting the Company's Annual Report and Audited Financial Statements for the financial year ended 31 December 2010.

2010 saw the appointment of the new Managing Director, Mr Bas van den Berg. His impact on the Company has been evident; there is a new sense of purpose and energy throughout the organisation and this has had a positive result on the Company.

Mr van den Berg returned the Company to top-line growth. Whilst revenue overall grew by only 3% to RM710.6 million in 2010, growth in the strategic segments of the business where the Company chooses to compete in were more than satisfying. This was however, off-set by lower sales in non-strategic business segments.

I am however, pleased to inform that in 2010, the Company achieved the highest level of profit before tax in its history, amounting to RM90.1 million, 9% higher than the previous year, despite having to make some provisions during the year. This impressive result was mainly attributable to better product mix and better sales in powders and drinks, arising from the strategic decisions made, and lower costs.

The Company had certainly been very active during the year. One of the most exciting events was the highly successful "Spread the Goodness of Milk" campaign held in conjunction with World Milk Day on 1 June 2010, where we created a Malaysian Book of Records for the largest number of Malaysians drinking milk at the same time.

We also launched Dutch Lady Growing-up Milk 6+, a milk powder providing essential nutrients to six-year old children and Frisomum, a tasty and nutritions milk supplement for pregnant and breastfeeding women.

In liquid milk we launched Dutch Lady UHT "Kid" and "School". Dutch Lady Kid is specially formulated for the nutritional needs of children of ages 1 to 6 years old, in a handy 125 ml tetra pack. Dutch Lady School on the other hand are for children of ages 6 to 12 years old in 200 ml tetra packs.

I can assure you that the Company will continue to introduce new and exciting innovative products in 2011. One such product is Dutch Lady's Growing-up Milk with 5x DHA in the beginning of the year.

After a relatively stable year for prices of milk solids, we anticipate that prices of imported dairy raw materials will rise sharply starting early in 2011. This is mainly a result of increasingly strong demand in emerging markets and climatic changes affecting milk powder exporting countries. It will unfortunately increase our input costs and likely to impact on the bottom-line results.

On dividends, I am pleased that the Company was able to make its special interim dividend payment, in addition to the normal dividends. A total of RM46.4 million was paid out in dividends to shareholders during the year, compared to RM42.0 million in the previous year.

I wish to remind shareholders though, that the payment of special interim dividends is not guaranteed but is very much dependent on the Company's business and operational needs during the year.

In the Board, I have the pleasure in extending a warm welcome to Mr Kapil Garg, the new Non-Executive Director of the Company. We are indeed privileged to have Mr Garg on our Board because he is the Executive Board member of our holding company, Royal FrieslandCampina N.V., with responsibility for the business group Consumer Products International.

By the same token, we bid a fond farewell to Mr Hans Laarakker, the former Managing Director of the Company for the last four years. Mr Laarakker is at present working in one of the Group's affiliates in the Netherlands.

As always, on behalf of the Board, I would like to convey our sincere thanks to the Management, employees and business partners of the Company for their exemplary performance in 2010 and wish them even greater success in the current year.

DATO' ZAINAL ABIDIN BIN PUTIH
Chairman

**"I am however, pleased to inform that in 2010, the Company achieved the highest level of profit before tax in its history, amounting to RM90.1 million, 9% higher than the previous year..."**

# corporate governance statement

The Board of Directors is pleased to report to shareholders the manner in which the Company has applied the principles and the extent of compliance with the best practices of good governance as set out in Part 1 and Part 2 respectively of the revised Malaysian Code on Corporate Governance (the Code) pursuant to Paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (the Listing Requirements).

## 1 The Board of Directors

### 1.1 Composition

The Board comprises seven directors; two of whom are Non-Independent Non-Executive Directors, three are Independent Non-Executive Directors and two Executive Directors within the meaning of Chapter 1.01 of the Listing Requirements. The Board is required under Paragraph 15.02 of the Main Market Listing Requirements to ensure that it has one-third independent directors.

The Board has identified Dato' Zainal Abidin bin Putih as its senior Independent and Non-Executive Chairman, to whom concerns of shareholders, Management and others may be conveyed.

### Duties and Responsibilities

The Company is led by an experienced Board under a Chairman who is an Independent and Non-Executive Director. The roles of the Chairman and Managing Director are separate and each has a clearly accepted division of responsibilities. Members of the Board are professionals from varied backgrounds, bringing depth and diversity in experience, expertise and perspectives to the Company's business operations. The profiles of the members of the Board are set out in this Annual Report on pages 14 and 15.

The Board is ensured of a balanced view at all board deliberations largely due to the presence of its non-executive directors that form a majority in the Board.

More importantly, the Board has as members, Independent Non-Executive Directors who are independent from Management and major shareholders of the Company. The Independent Directors are also free from any business or other relationships that could materially interfere with the exercise of their independent judgement.

Together with the Managing Director who has an intimate knowledge of the Company's business, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities. As part of its commitment, the Board supports the highest standards of corporate governance and the development of best practices for the Company.

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

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

## 2 Board Meetings

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

During the financial year, the Board met four times; whereat it deliberated and considered a variety of matters including the Company's financial results, the business plan and direction of the Company. The Board receives documents on matters requiring its consideration prior to and in advance of each meeting. The Board papers are comprehensive and encompass all aspects of the matters being considered which enable the Board to look at both the quantitative and qualitative factors so that informed decisions are made.

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

The attendance of the directors at the Board Meetings is set out in the Directors' Profile appearing on pages 14 and 15 of the Annual Report.

## 3 Re-election of Directors

At least one-third of the Directors are required to retire by rotation each financial year in accordance with the Company's Articles of Association and can offer themselves for re-election at the Annual General Meeting.

Directors who are appointed by the Board to fill a casual vacancy during the year are subject to election by shareholders at the next Annual General Meeting following their appointment.

The Company's Articles of Association provide that the Managing Director is also subject to retire by rotation once every three years.

## 4 Directors' Training

All members of the Board have attended and successfully completed the Mandatory Accreditation Programme.

The Board has the responsibility of overseeing the training needs of their Directors. In addition to specific training programmes for its Directors annually, Directors are encouraged to attend relevant seminars and training programmes to equip themselves with the knowledge to effectively discharge their duties as Directors.

For the year under review, all the directors attended a training programme that covered the following topics:

- Recent Updates on the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and Recent Shareholder Issues
- Competition Act 2010 and Competition Commission Act 2010
- Enterprise Risk Management
- Social Media and its impact on businesses
- Briefing on Financial Reporting Standards

Throughout the year, the Directors received regular updates and briefings on regulatory, industry and legal developments, including information on significant changes in business and operational risks and procedures instituted to mitigate such risks.

## 5 Directors' Remuneration

Directors' fees are paid to Non-Executive Directors and these are approved by shareholders at the Annual General Meeting. Non-Executive Directors are also paid an attendance allowance for each Board or Committee Meeting that they attend. The Executive Directors are not paid an attendance allowance nor directors' fees.

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

The aggregate remuneration of Directors of the Company for the financial year ended 31 December 2010 are as follows:

| | Executive Directors | Non-Executive Directors |
|---|---|---|
| | RM '000 | RM '000 |
| Directors' fees | - | 174 |
| Meeting allowances | - | 20 |
| Salaries and other emoluments | 1,272 | - |
| Benefits in kind | 766 | - |

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

| Range of Renumeration | Executive Directors | Non-Executive Directors |
|---|---|---|
| Below RM50,000 | - | 3 |
| RM50,001 to RM100,000 | - | 1 |
| Above RM500,000 | 2 | - |

## 6 Board Committees

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

### 6.1 Audit Committee

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

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

The Audit Committee comprises four Directors (three of whom, including the Chairman, are Independent Non-Executive Directors). The members of the 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)

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

The Committee also reviews the Company's quarterly unaudited statements and final audited (12 months) Financial Statements before they are considered, deliberated and approved by the Board as well as related party transactions and any conflicts of interest situations during the year.

The Audit Committee Report for the financial year pursuant to Paragraph 15.15 of the Listing Requirements is contained on pages 16 and 17 of this Annual Report.

### 6.2 Nomination Committee

The Committee comprises three Directors, all of whom are Non-Executive Directors, a majority of whom are Independent Non-Executive Directors. The members of the Committee are:

1. *Mr. Kapil Garg*
   (Non-Independent Non-Executive Director) - Chairman
2. *Dato' Zainal Abidin bin Putih*
   (Independent Non-Executive Director)
3. *Mr. Boey Tak Kong*
   (Independent Non-Executive Director)

Mr Kapil Garg replaced Mr Johannes P.F. Laarakker as Chairman of the Nomination Committee on 18 August 2010.

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

### 6.3 Remuneration Committee

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

1. *Dato' Dr. Mhd. Nordin bin Mohd. Nor*
   (Non-Independent Non-Executive Director)
2. *Mr. Foo Swee Leng*
   (Independent Non-Executive Director)
3. *Mr. Sebastiaan G. van den Berg*
   (Managing Director)

The Committee's primary responsibility is to recommend to the Board, the remuneration of Directors (Executive and Non-Executive). The Company adheres to the Group's human resource policies and procedures, which includes its performance appraisal system and compensation and benefits scheme. Nevertheless, the determination of remuneration packages of Directors is a matter for the Board as a whole and individual directors abstain from discussion of their own remuneration.

## 7 Accountability and audit

### 7.1 Financial Reporting:

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

### 7.2 Statement of Directors' Responsibility in respect of Audited Financial Statements pursuant to Paragraph 15.26(a) of the Main Market Listing Requirements.

Directors are required pursuant to Section 169(15) of the Companies Act, 1965 to state whether the Company's Financial Statements for the financial year are drawn up in accordance with approved accounting standards so as to give a true and fair view of the Company's state of affairs and of the results of the Company's business operations for the financial year.

In preparing the Financial Statements, the Directors have:

- adopted suitable accounting policies and then applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed; and
- prepared the Financial Statements on an ongoing basis.

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

### 7.3 Internal Audit

The Company's Internal Audit function was out-sourced to Ernst & Young, a public accounting firm, who are independent of the activities or operations of the Company, until September 2010.

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

The Internal Auditors' audit plan, nature and scope of the audit were agreed with the Audit Committee prior to the commencement of their audit. They reported on weaknesses in control procedures and made recommendations on areas for improvement.

They also reviewed the extent to which their recommendations have been implemented by the Company.

Ernst & Young's internal audit fees for the year amounted to RM 45,000.

Subsequent to September 2010, the Company set up its own Internal Audit department. Its Internal Audit department is supported by the Group's Corporate Internal Audit department.

In the last quarter of the year, the Company's Internal Audit department began the process of implementing the first phase of the Group's Internal Control Framework.

### 7.4 External Audit

The Company's independent external auditors, KPMG, plays an essential role to the shareholders by enhancing the reliability of the Company's Financial Statements and by giving assurance of that reliability to users of the Financial Statements.

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

## 8 Relations with Shareholders and Investors

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

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

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

The Company's website, **www.dutchlady.com.my** provides corporate and financial information, as well as news, highlights, events, product information and medical advice.


DUTCH LADY
school

# directors' profile

# directors' profile

Dato' Zainal Abidin bin Putih

Mr. Kapil Garg

Mr. Sebastiaan G. van den Berg

## DATO' ZAINAL ABIDIN BIN PUTIH

Aged 64. Malaysian. Independent Non-Executive Director. Chairman of the Company since 27 May 2009. Member of the Nomination Committee. He is also a director of several publicly listed companies. An accountant by profession. 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 ten years. He does not hold any shares in the Company. He attended all four Board meetings held during the financial year.

## MR. KAPIL GARG

Aged 46. Indian national. Non-Independent Non-Executive Director. Appointed to the Board on 18 August 2010. Chairman of the Nomination Committee. He is a member of the Executive Board of Royal FrieslandCampina N.V., the utlimate holding company of the Company, with responsibility for the business group Consumer Products International. He holds a degree in Economics and an MBA from the University of Delhi, India. 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 NV. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended one Board Meeting held during the financial year since his appointment as Director on 18 August 2010.

## MR. SEBASTIAAN G. VAN DEN BERG

Aged 42. Dutch. Executive Director. Managing Director of the Company since 1 January 2010. Member of the Remuneration Committee. A board member of the Malaysian Dutch Business Council. He holds a business degree from HEAO Haarlem, the Netherlands. 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 NV. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

Mr. Boey Tak Kong

Dato' Dr. Mhd. Nordin bin Mohd. Nor

Mr. Huang Shi Chin

Mr. Foo Swee Leng

## MR. BOEY TAK KONG

Aged 56. Malaysian. Independent Non-Executive Director. Appointed to the Board on 12 November 2001. Chairman of the Audit Committee and member of the Nomination Committee. He is also a director of several publicly listed companies. Currently, he is the Managing Director of Terus Mesra Sdn Bhd, a leadership training company. A Fellow Member of the Chartered Association of Certified Accountants, United Kingdom, Associate Member of the Institute of Chartered Secretaries & Administrators, United Kingdom, Chartered Accountant of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Management. 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 ten years and he does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

## DATO' DR. MHD. NORDIN BIN MOHD. NOR

Aged 64. Malaysian. Non-Independent Non-Executive Director. Appointed to the Board on 6 August 2003. Chairman of the Remuneration Committee and member of the Audit Committee. He is also a Director of Sunzen Biotech Berhad. He was formerly the Director-General of the Department of Veterinary Services, Malaysia. He is also the Chairman of the Malaysian Animal Welfare Foundation and Patron of the Malaysian Feline Society. He holds a degree in Veterinary Science from the University of Queensland, Australia. He 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. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

## MR. HUANG SHI CHIN

Aged 52. Malaysian. Executive Director. Appointed to the Board on 6 May 2004. He is currently the Company's Corporate Affairs Director and Joint Company Secretary. A Member of the Institute of Chartered Accountants (England & Wales) and a Chartered Accountant of the Malaysian Institute of Accountants. 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 ten years. He does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

## MR. FOO SWEE LENG

Aged 64. Malaysian. Independent Non-Executive Director. Appointed to the Board on 18 June 1986. Member of the Audit and Remuneration Committees. He was formerly the Managing Director of the Company and the Regional Director of Friesland Asia Pacific. He holds a degree in Economics from University Malaya. 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 ten years. He does not hold any shares in the Company. He attended all four Board Meetings held during the financial year.

# audit committee report

Pursuant to paragraph 15.15 of the Listing Requirements of Bursa Malaysia Securities Berhad

## 1 Membership and Meeting of the 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)

Mr. Boey Tak Kong and Dato' Zainal Abidin bin Putih, being members of the Malaysian Institute of Accountants, fulfill the requirement of paragraph 15.09(1)(c) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Audit Committee held four meetings during the financial year ended 31 December 2010. Details of attendance of the Audit Committee members are as follows:-

| Name of Members | Total Meetings Attended |
|---|---|
| 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 |

## 2 Role of the Audit Committee

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

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

## 3 Terms of reference

- **Composition**
  The Committee comprises four Directors, a majority of whom is independent. The Chairman is an Independent Non-Executive Director. Two members of the Committee are professional accountants.

  In compliance with the Code, all members of the Committee are Non-Executive Directors.

- **Quorum**
  The quorum for the Meeting is three.

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

- **Attendance at Meeting**
  The Finance Director, Internal Auditors and External Auditors attend meetings by invitation of the Committee. Other Board Members have the right of attendance.

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

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

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

- **Duties**
  The duties of the Committee are:

  (a) To consider the appointment of the External Auditors and fix their audit fee, and any question of their resignation or dismissal.

  (b) To discuss with the External Auditors their audit plan, the nature and scope of the audit, evaluation of the Company's system of internal controls and audit report on the annual Financial Statements.

  (c) To review the quarterly and annual Financial Statements of the Company before submission to the Board of Directors, focusing particularly on:

  (i) public announcement of the results and dividend payment;
  (ii) any changes in accounting policies and practices;
  (iii) the going concern assumption;
  (iv) compliance with approved accounting standards;
  (v) compliance with stock exchange and legal requirements; and
  (vi) significant adjustments arising from the audit.

  (d) To discuss issues and reservations arising from the interim and final audits, and any matters the External Auditors may wish to discuss, in the absence of Management where necessary.

  (e) To review the External Auditors' letter to Management and Management's response thereon.

  (f) To do the following, in relation to the internal audit function:-

  (i) review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;

(ii) review the internal audit plan and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function by Management;

(iii) review and appraise the performance of members of the internal audit function;

(iv) approve any appointment or termination of senior staff members of the internal audit function; and

(v) take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

(g) To consider any related party transactions and conflict of interest situations that may arise within the Company.

(h) To consider the major findings of any internal investigations and Management's response thereon.

(i) To review the draft Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature, before submission to the Board of Directors.

(j) To consider any other topics, as defined by the Board.

- **Reporting Procedures**

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

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

## 4 Internal Audit Function

The Company's Internal Audit function was carried out by Ernst & Young, a public accounting firm until September 2010. Ernst & Young are independent from the activities or operations of the Company and report to the Audit Committee.

The Internal Auditors are empowered to audit the Company's business units, review the units' compliance with internal control procedures, highlight areas of weaknesses and make appropriate recommendations to the Company for improvements.

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

- prepared the audit plan for the year, which is reviewed and approved annually by the Audit Committee. The annual audit plan is based on the 2009 - 2011 audit plan following a risk likelihood/impact assessment and approved by the Audit Committee on 18 November 2008, and modified where necessary by the Audit Committee;
- determined the manpower requirement to support the audit plan;
- prepared the audit programme based on the audit plan, for each activity or process to be audited;
- discussed with auditees, process owners and Management on the results of the audit for each activity or process, and the recommendations for improvements;
- reported to the Audit Committee on a quarterly basis, the internal audit findings on risk management, control and governance issues identified during the risk based audits, together with recommendations for improvement in the processes;
- undertook investigations and special reviews of matters arising from the audits and/or as requested by Management and/or Audit Committee, and issued reports accordingly;
- followed up on recommendations from the previous internal audit reports to ensure that all matters arising are adequately addressed; and
- conducted follow-up of recommendations by the External Auditors in their Management letter.

Subsequent to September 2010, the Company set up its own Internal Audit department. Its Internal Audit department is supported by the Group's Corporate Internal Audit department.

In the last quarter of the year, the Company's Internal Audit department began the process of implementing the first phase of the Group's Internal Control Framework.

## 5 Summary of Audit Committee's Activities

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

The activities of the Audit Committee during the financial year ended 31 December 2010 were as follows:

(i) reviewed the audit plan, nature and scope of the audit with the Internal and External Auditors;

(ii) discussed the findings and recommendations by the Internal and External Auditors on systems and control weaknesses, and ensured that corrective actions were taken by Management;

during the year, the Audit Committee had four meetings with the Internal Auditors and three meetings with the External Auditors, which included separate sessions between the Independent and Non-Executive Directors and External Auditors, without the presence of the Executive Directors and Management staff;

(iii) reviewed the compliance with accounting standards and ensured that the Company used appropriate accounting policies for its financial statements;

(iv) reviewed the Company's quarterly financial results and recommended the same to the Board for approval and announcement to Bursa Malaysia Securities Berhad;

(v) reviewed the Company's audited accounts for the year and audit report of the External Auditors on the financial statements and recommended the same to the Board for approval;

(vi) reviewed the related party transactions and any conflicts of interest situations during the year; and

(vii) reviewed the Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and recommended the same to the Board for approval.


# corporate responsibility

# corporate responsibility

Corporate Responsibility (CR) continues to be an important tenet of our operating philosophy. The Company has adopted five key sustainability themes relating to its CR: Dutch Lady Malaysia in the society, Nutrition and health, Care for the environment, Dedicated employees and Sustainable agriculture.

## Dutch Lady Malaysia in the Society

We see socially responsible, sustainable business as an important part of our commercial operations. We attach great value to establishing and maintaining good relationship with our consumers, customers, shareholders, suppliers, business partners, organisations and communities in which we operate. We recognise that a good corporate social responsibility (CSR) programme is integral in building long-term shareholder value.

- **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 our holding company FrieslandCampina's Code of Conduct which sets out the values, principles and guidelines for how we should conduct our business to ensure integrity, transparency and accountability in all our business undertakings.

  We expect all our employees to maintain the highest standards of propriety, integrity and conduct in all their business relationships. Employees are contractually bound to abide by the Code of Conduct when conducting themselves at work and with external stakeholders such as our customers and suppliers. Bribery and corruption is not tolerated. Employees are encouraged to report any malpractices without fear or favour to the Company's local trusted representatives or an external contact at the Groups' head office. Whistle-Blowing Procedures are in place for employees to address these concerns.

- **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 medical 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 Internal Control of this Annual Report.

- **Responsibility to the Local Communities**

  We believe in adding value to the communities in which we operate. We fully acknowledge and remain committed to conduct our business responsibly whilst contributing to society.

- **Embedding CSR among Employees through Volunteerism**

  During the year under review, we set up Dutch Lady Blue Brigade (DLBB). DLBB is the Company's employee volunteer programme which aims to provide employees the opportunity to contribute towards the communities. It acts as a platform for employees to volunteer their personal time to touch the lives of those less fortunate through a community outreach programme and other corporate social responsibility (CSR) activities. Spreading the goodness of milk is seen as pivotal in most of the DLBB activities.

With the Blue Brigade in place, the Company continues to actively participate in many activities with charitable organisations, children's homes, schools and other corporate bodies. These include:

- monthly milk donations for children at the StArt society – a charity based arts academy created to serve under privileged children to hone their skill in the arts;
- fun educational activities centred on the Goodness of Milk with special needs children at SK Bandar Rinching, Selangor;
- milk donations to Rumah Nur Salam, various orphanages and children's homes in and around Selangor;
- various events with like-minded organisations like KL Monorail and Hotel Nikko Kuala Lumpur to host and bring cheer to the less fortunate's.

## Nutrition and Health

In line with our mission of "Helping Malaysians move forward in life with trusted dairy nutrition", we aim to continue developing a healthy and responsible product range in a choice of options and portion sizes. We also give considerable attention to ensure that all our product labels and claims comply with standards of Malaysia Food Act 1983 and Regulations as well as the Ministry of Health Regulations.

- **Quality, Research & Development and Innovation**

  We recognise the competitive business environment in which we operate. Thus, we are focused on producing quality and innovative products, at optimum costs and with greater productivity to face the challenges of intense competition in the market place. Our emphasis on producing quality and innovative products to meet the nutritional needs of our consumers of all ages will continue to be the foundation for our growth. We will continue to benchmark our processes against the highest international standards and to embrace relevant technology to stay ahead. Investment in research and development internally and with the help of the Royal FrieslandCampina Group, and embracing best practices will be the key to our sustainable growth in businesses. We will continue to maintain and improve our processes through Good Manufacturing Practices, Hazard Analysis Critical Control Point (HACCP) System, Quality Management System (ISO 9001), Environment Management System (ISO14001) and Occupational Health and Safety (OHSAS 18001) standards.

- **Halal Standards**

  The Company's Halal Policy statement spells out our commitment to provide Halal products to our consumers by adhering to Halal requirements which sets high standards for hygiene, quality, safety and sanitary conditions. We have an internal Halal committee that is responsible to ensure that the Company complies with all Halal requirements as set out by the authority. The committee also handles regular inspections by Islamic religious authorities.

## Care for the Environment

We are fully 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 commitment and efforts towards the environment is embodied in the ISO 14001 Environment Management System, a systematic management approach towards the environment.

Our Safety, Health & Environment Policy outlines our commitment and position on this. Our Safety, Health and Environment department has the responsibility of maintaining occupational safety, health and environmental practices within the Company. It conducts periodic reviews, provide training and issue guidelines to equip our people with the necessary skills and knowledge to inculcate environmental awareness in our work culture.

- **Water Management**

  Managing water consumption is an important priority for the Company. Various water recycling improvement projects were undertaken at production plants. In addition, our Engineering department regularly conducts audit of leakages to identify areas of leakages in the plant, taken steps to repair or replace the faulty pipes to avoid further wastages.

  As a result, in 2010 water consumption was considerably reduced by 36% compared to 2009. This however did not significantly impact the production volumes in 2010 which are comparable to the figures in 2009.

- **Energy Management**

  We made conscious efforts in improving our manufacturing processes and continuously work towards the reduction in the use of electricity throughout the Company. In 2010, the Company saved RM 75,000 in electricity consumption compared to 2009.

  We use natural gas in our manufacturing operations where the consumption and trend of usage is continously monitored. We regularly made efforts to ensure we have efficient operations in place to minimise the use of natural gas. In 2010, we reported a reduction in the use of natural gas where we saved RM4 million compared to in 2009.

- **Waste Management**

  We instituted a cost-saving wastewater management in 2010. Traditionally, the Company spent on average RM300,000 to dispose of the sludge produced as a result of the wastewater treatment. However, with the new process in place this year, we engaged a third party horticulture company to collect the sludge and turn it into fertilisers.

  We have a systematic procedure for the disposal of market-returned products, used packaging materials and scheduled waste. We believe all these efforts contribute to a cleaner and greener environment.

## Dedicated Employees

We want to be an employer that respects its employees and inspires them to give their best to the Company. As an employer, we aim to provide a working environment characterised by fairness, respect and integrity. We have always taken seriously the value of our people and are committed to good employment practices. Our priorities include providing a comprehensive training and development programme, ensuring a competitive remuneration system and instituting a performance-led management. Safety and health of employees remains paramount.

- **Employee Involvement**

  In our ambition to be the number one dairy employer in Malaysia, we have adopted the Group's 'Way We Work' working ethos and localised it to enable our employees to understand and assimilate into their own working culture. The localised version known as "Passion for BLUE" (PfB) was introduced in the year as a strategy to enhance the right working atmosphere to realise our goals. BLUE is an acronym of four key values: Believe in Growth, Look Forward, Unite as One Team and Excel in Execution.

  A special team was formed called the Culture Club whose main objective is to drive the BLUE values among our employees through various employee engagement activities.

- **Informed Employees are Empowered Employees**

  We pride ourselves on ensuring that open two-way communication channels are available to all employees. Our people are our asset and to drive the Company business strategy, we ensure line of sight through various face-to-face communications, quarterly town hall sessions and quarterly employees' newsletters known as *SUARA DLMI*. This is to facilitate better understanding of the Company's objectives and directions.


- **Employee Satisfaction**

  An employees' satisfaction survey, known as the BLUE Pulse is continually administered every quarter as a key indicator of how we are performing as an employer. The results are shared with employees and used to highlight areas for improvement.

- **Caring for Our People**

  We place highest importance in ensuring that our people are continuously equipped with the necessary skills and knowledge to keep us at the forefront of our business. Whilst we strive to create more value for our shareholders, we also seek to balance our commitment to our people. We have organised various employee engagement initiatives, ranging from trainings to social gatherings as well as recreational activities. As part of our initiatives, we provide free canteen food to our employees in the factory. We also instituted the Children's Education Excellence Award to recognise and encourage good examination results of our employees' children. We also appreciate the loyalty of employees. Long Service Awards are presented to those employees serving 10, 15, 20 and 25 years of service. Special retirement awards are also handed out to retiring staff.

- **Training and Development**

  As a learning-based organisation, we firmly believe in continuous training and development. Various programmes were held which focuses on upgrading the competencies of our people to help unleash their potential and productivity while creating a talent pool for effective succession planning.

  Investment is made in structured on-the-job training, workshops and seminars covering areas on management, technical, communication, leadership as well as soft-skills.

  We have in place a Talent Assessment Programme to identify and develop future leaders. We also have a Graduate Trainee Programme to identify and develop energetic young people with excellent leadership and managerial qualities. A total of six trainees were recruited during the year.

- **More than Just Work**

  We believe in strengthening the bonds of friendship and solidarity whilst instilling a sense of belonging among staff. This is achieved through various activities held during the year for employees.

  The Annual Dinner and Family Day are held annually to bring together employees and their families. Special celebrations of smaller groups are also held when predetermined targets or objectives are achieved.

  The Kelab Sukan Dutch Lady was established to organise various social, sports and welfare activities for our employees. Employees participate in various sports activities organised by the Sports Club throughout the year.

- **Safety is our No. 1 priority**

  We believe that safety is paramount in all aspects of our operations. We are committed to ensure a safe environment for our employees and others who work on-site through our demonstration of safe work practices. Concerted efforts are continually made to create awareness on the collective responsibility among our employees for the prevention of injuries and occupational health hazards and the assurance of public safety when carrying out our business activities.

  We have in place OHSAS 18001 (Occupational Health and Safety Assessment Series) that contributes to the protection of employees from hazards and the elimination of work-related injuries and health-related issues.

## Sustainable Agriculture

- **Sustainable Cooperation with Local Government**

  Dutch Lady Malaysia started the Dairy Development Programme (DDP) in 2008 in cooperation with the Department of Veterinary Services (DVS) and the Netherlands Embassy.

  The programme is designed to help local farmers produce quality milk in higher volumes. It also helps to ensure sustainability of milk supply to Dutch Lady Malaysia. We continue to support the local farmers by providing them with technical advice through Dutch dairy experts on farm management, farm hygeine, animal health nutrition and good animal husbandry practices. DDP also became a good platform for farmers to network and share their ideas with the DVS officials and other dairy farmers.

  As a result of this programme, the local dairy industry has shown a marked improvement in the production of higher quality milk volumes.

# statement of internal control

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

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

### Internal Control Structure and Processes

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

The 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 accountability and authorisation, approval and control procedures within which senior management operates.

- **Authority Levels, Acquisitions and Disposals**

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

  Investment decisions are delegated to executive management in accordance with authority limits. 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, approving cheque signatories and the opening of bank accounts.

- **Procedures and Control Environment**

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

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

- **Standards of Business Ethics**

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

  In line with this, the Company has a comprehensive Employee Handbook, Code of Conduct and Whistle-Blowing Procedures. In addition, the Group's Anti-trust Code of Conduct was cascaded to relevant employees at the end of the year.

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

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

- **Reporting and Review**

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

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

- **Financial Performance**

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

- **Assurance Compliance**

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

- **Internal Control Framework**

  The Company has in place a risk and control framework which is based on the COSO Internal Control Framework, a world standard against which companies measure the effectiveness of the internal control systems in managing business risks.

  During the year, the Company began the process of implementing the first phase of the Group's new Internal Control Framework (ICF). ICF is the new internal control standard within the Group.

- **Update on Developments**

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

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

The Internal Audit team advises executive and operational management on areas for improvement and subsequently reviews the extent to which its recommendations have been implemented. The extent of compliance is reported to the Audit Committee on a quarterly basis.


The outsourced Internal Audit function was replaced in September 2010 by the Company's own Internal Audit department, supported by the Group's Corporate Internal Audit department.

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

In addition to internal controls, the Directors have ensured that 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 paramount. Quality Assurance, Quality Control and meeting customer requirements are prime considerations and this is achieved by the Company being continuously ISO 9001 certified since 1995. Strong emphasis is also given to food safety with Good Manufacturing Practices and HACCP (Hazard Analysis Critical Control Point) System that covers all plants.

In addition, 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 that contributes to the protection of employees from hazards and the elimination of work related injuries and health-related issues.

### Conclusion

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

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.

# financial highlights

# directors' report

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the year ended 31 December 2010.

### Principal activities

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

### Results

| | RM'000 |
|---|---|
| Profit for the year | 63,887 |

### 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 final ordinary dividend of 10.00 sen per ordinary share less tax at 25% and 5.00 sen per ordinary share, tax exempt, totalling RM 8,000,000 (12.50 sen net per ordinary share) in respect of the year ended 31 December 2009 on 1.7.2010;

ii) a special interim ordinary dividend of 30.00 sen per ordinary share less tax at 25% totalling RM 14,400,000 (22.50 sen net per ordinary share) in respect of the year ended 31 December 2010 on 1.7.2010.

iii) an interim ordinary dividend of 10.00 sen per ordinary share less tax at 25% totalling RM 4,800,000 (7.50 sen net per ordinary share) in respect of the year ended 31 December 2010 on 28.12.2010; and

iv) a special interim ordinary dividend of 40.00 sen per ordinary share less tax at 25% totalling RM 19,200,000 (30.00 sen net per ordinary share) in respect of the year ended 31 December 2010 on 28.12.2010.

The final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2010 is 10.00 sen per ordinary share less tax at 25% and 5.00 sen per ordinary share, tax exempt, totalling RM 8,000,000 (12.50 sen net per ordinary share).

### Directors of the Company

Directors who served since the date of the last report are:

Dato' Zainal Abidin bin Putih
Sebastiaan Gijsbertus van den Berg
Kapil Garg (Appointed on 18/08/2010)
Foo Swee Leng
Boey Tak Kong
Dato' Dr. Mhd Nordin bin Mohd. Nor
Huang Shi Chin

In accordance with Article 94(a) of the Company's Articles of Association, Mr. Foo Swee Leng and Dato' Dr. Mhd Nordin bin Mohd. Nor retire by rotation at the forthcoming Annual General Meeting and, being eligible offer themselves for re-election.

In accordance with Article 97 of the Company's Articles of Association, Mr. Kapil Garg, who was appointed during the year, retires at the forthcoming Annual General Meeting and, being eligible offers himself for re-election.

### Directors' interests

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 related companies during and at the end of the financial year. Under the Company's Articles of Association, 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 Directors as shown in the financial statements or the fixed salaries of full-time employees of the Company) 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.

### 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 statement of comprehensive income and statement of financial position of the Company were made out, 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 have been written down to an amount which they 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.

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, except for the impairment loss on property, plant and equipment of RM12,308,000 as disclosed in the Note 12 to the financial statements, the financial performance of the Company for the year ended 31 December 2010 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 during the financial year were FrieslandCampina DLMI Malaysia Holding BV (formerly known as Frint Beheer IV BV) and Royal FrieslandCampina NV respectively. Both companies are incorporated in the Netherlands.

### Auditors

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

Sebastiaan Gijsbertus van den Berg

Huang Shi Chin

Petaling Jaya
24 February 2011

# statement of financial position

## at 31 december 2010

| | Note | 31.12.2010 RM'000 | 31.12.2009 RM'000 restated | 1.1.2009 RM'000 restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property, plant and equipment | 3 | 69,803 | 82,327 | 61,334 |
| Intangible assets | 4 | 3,443 | 4,879 | 5,664 |
| **TOTAL NON-CURRENT ASSETS** | | 73,246 | 87,206 | 66,998 |
| Inventories | 5 | 72,722 | 57,552 | 74,902 |
| Trade and other receivables | 6 | 75,176 | 94,369 | 122,858 |
| Prepayments | | 689 | 131 | 20 |
| Cash and cash equivalents | 7 | 85,657 | 41,732 | 23,792 |
| **TOTAL CURRENT ASSETS** | | 234,244 | 193,784 | 221,572 |
| **TOTAL ASSETS** | | 307,490 | 280,990 | 288,570 |
| **EQUITY** | | | | |
| Share capital | 8 | 64,000 | 64,000 | 64,000 |
| Retained profits | 8 | 133,472 | 115,985 | 97,585 |
| **TOTAL EQUITY** | | 197,472 | 179,985 | 161,585 |
| **LIABILITIES** | | | | |
| Deferred tax liabilities | 9 | 3,757 | 4,150 | 2,300 |
| **TOTAL NON-CURRENT LIABILITIES** | | 3,757 | 4,150 | 2,300 |
| Trade and other payables | 10 | 99,638 | 91,905 | 120,080 |
| Provision | 11 | 348 | 283 | 247 |
| Current tax liabilities | | 6,275 | 4,667 | 4,358 |
| **TOTAL CURRENT LIABILITIES** | | 106,261 | 96,855 | 124,685 |
| **TOTAL LIABILITIES** | | 110,018 | 101,005 | 126,985 |
| **TOTAL EQUITY AND LIABILITIES** | | 307,490 | 280,990 | 288,570 |

The notes on pages 34 to 60 are an integral part of these financial statements.

# statement of comprehensive income

for the year ended 31 december 2010

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| Revenue | | 710,588 | 691,847 |
| Cost of sales | | (447,961) | (462,510) |
| **GROSS PROFIT** | | 262,627 | 229,337 |
| Other income | | 1,147 | 1,561 |
| Distribution expenses | | (106,091) | (98,697) |
| Administrative expenses | | (22,657) | (19,048) |
| Other expenses | | (45,805) | (31,122) |
| **RESULT FROM OPERATING ACTIVITIES** | | 89,221 | 82,031 |
| Interest income | | 883 | 451 |
| Finance costs | | - | (1) |
| **PROFIT BEFORE TAX** | 12 | 90,104 | 82,481 |
| Income tax expenses | 14 | (26,217) | (22,081) |
| **PROFIT FOR THE YEAR** | | 63,887 | 60,400 |
| **OTHER COMPREHENSIVE INCOME** | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 63,887 | 60,400 |
| **BASIC EARNINGS PER ORDINARY SHARE (SEN)** | 15 | 99.80 | 94.40 |

The notes on pages 34 to 60 are an integral part of these financial statements.

# statement of changes in equity

## for the year ended 31 december 2010

| | | Attributable to owners of the Company | | |
|---|---|---|---|---|
| | | | *Distributable* | |
| | | Share capital | Retained profits | Total equity |
| | Note | RM'000 | RM'000 | RM'000 |
| **AT 1 JANUARY 2009** | | 64,000 | 97,585 | 161,585 |
| Total comprehensive income for the year | | - | 60,400 | 60,400 |
| Dividends to owners of the Company | 16 | - | (42,000) | (42,000) |
| **AT 31 DECEMBER 2009/ 1 JANUARY 2010** | | 64,000 | 115,985 | 179,985 |
| Total comprehensive income for the year | | - | 63,887 | 63,887 |
| Dividends to owners of the Company | 16 | - | (46,400) | (46,400) |
| **AT 31 DECEMBER 2010** | | 64,000 | 133,472 | 197,472 |
| | | Note 8 | Note 8 | |

The notes on pages 34 to 60 are an integral part of these financial statements.

# statement of cash flow
## for the year ended 31 december 2010

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers and other receivables | | 730,398 | 721,781 |
| Cash paid to suppliers and employees | | (607,007) | (612,482) |
| **CASH GENERATED FROM OPERATIONS** | | 123,391 | 109,299 |
| Tax paid | | (25,002) | (19,922) |
| **NET CASH FROM OPERATING ACTIVITIES** | | 98,389 | 89,377 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions of property, plant and equipment | | (9,089) | (29,285) |
| Additions of intangible assets | | (136) | (607) |
| Proceeds from disposal of property, plant and equipment | | 278 | 5 |
| Interest received | | 883 | 451 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (8,064) | (29,436) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Interest paid | | - | (1) |
| Dividends paid | 16 | (46,400) | (42,000) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | (46,400) | (42,001) |
| Net increase in cash and cash equivalents | | 43,925 | 17,940 |
| Cash and cash equivalents at 1 January | (i) | 41,732 | 23,792 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | (i) | 85,657 | 41,732 |

**i) Cash and cash equivalents**

Cash and cash equivalents included in the statement of cash flow comprise the following statement of financial position amounts:

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| Cash at bank and on hand | 7 | 46,657 | 23,732 |
| Deposits placed with a licensed bank | 7 | 39,000 | 18,000 |
| | | 85,657 | 41,732 |

The notes on pages 34 to 60 are an integral part of these financial statements.

# 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**
No. 13, Jalan Semangat, 46200 Petaling Jaya, Selangor Darul Ehsan.

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

The immediate and ultimate holding companies during the financial year were FrieslandCampina DLMI Malaysia Holding BV (formerly known as Frint Beheer IV 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 24 February 2011.

## 1 BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The Company has not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Boards (MASB) but are not yet effective for the Company:

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010**

- Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010**

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (revised)
- FRS 127, Consolidated and Separate Financial Statements (revised)
- Amendments to FRS 2, Share-based Payment
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 138, Intangible Assets
- IC Interpretation 12, Service Concession Agreements
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17, Distributions of Non-cash Assets to Owners
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011**

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
  - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
  - Additional Exemptions for First-time Adopters
- Amendments to FRS 2, Group Cash-settled Share Based Payment Transactions
- Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
- IC Interpretation 4, Determining whether an Arrangement contains a Lease
- IC Interpretation 18, Transfers of Assets from Customers
- Improvements to FRSs (2010)

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011**

- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement

**FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012**

- FRS 124, Related Party Disclosures (revised)
- IC Interpretation 15, Agreements for the Construction of Real Estate

The Company plans to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 or 1 January 2011, except for FRS 3 (revised), FRS 127 (revised), Amendments to FRS 2 and FRS 132, IC Interpretation 12, IC Interpretation 16 and IC Interpretation 18 which are not applicable to the Company; and

- from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 or 1 January 2012, except for IC Interpretation 15, IC Interpretation 19 and Amendments to IC Interpretation 14 which are not applicable to the Company.

  The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

  The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Company.

  Following the announcement by the MASB on 1 August 2008, the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards (IFRS) framework for annual periods beginning on 1 January 2012.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except 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 FRSs 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.

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 in Note 3 – estimation of impairment loss on property, plant and equipment and Note 11 - estimation of provision for employees' pension contribution.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Company, other than those disclosed in the following notes:

- Note 2(b) - Financial instruments
- Note 2(d) - Leased assets
- Note 2(g) - Receivables
- Note 2(p) - Operating segments

**(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 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 date except for those that are measured at fair value which 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**

Arising from the adoption of FRS 139, Financial Instruments: Recognition and Measurement, with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2010, different accounting policies were applied. Significant changes to the accounting policies are discussed in Note 23.

**(i) Initial recognition and measurement**

A financial instrument is recognised in the financial statements 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.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

### (ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

**Financial assets**

**Loans and receivables**

Loans and receivables category comprises trade and other receivables and cash and cash equivalents.

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

All financial assets are subject to review for impairment (see note 2(i)(i)).

**Financial liabilities**

All financial liabilities are subsequently measured at amortised cost.

### (iii) Hedge accounting

**Cash flow hedge**

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in other comprehensive income until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

### (iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. 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 the 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 or 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 the profit or loss.

## (c) Property, plant and equipment

### (i) Recognition and measurement

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

### (ii) Subsequent costs

The cost of replacing part 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 part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part 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 calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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 2% - 5%
- plant and machinery 7.5% - 20%
- motor vehicles 20%
- furniture and equipment 10% - 20%

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

**(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. On 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.

**(ii) Operating lease**

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

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments.

The Company has adopted the amendment made to FRS 117, Leases in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. 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) Other intangible assets**

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**

Other intangible assets are amortised from the date 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.

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.

**(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) Receivables**

Prior to 1 January 2010, receivables were initially recognised at their costs and subsequently stated at cost less allowance for doubtful debts. Accruals for trade rebates, allowances and discounts owing to trade receivables are deducted against trade and other receivables when there is a right to set-off.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with note 2(b).

**(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, balances and deposits placed with a licensed bank.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy note 2(b).

**(i) Impairment**

**(i) Financial assets**

All financial assets 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. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

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.

**(ii) Non-financial assets**

The carrying amounts of non-financial 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 groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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

Impairment losses are recognised in the profit or loss.

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 year in which the reversals are recognised.

**(j) Equity instruments**

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

**(k) 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 or profit-sharing plans 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.

The Company's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(ii) **Termination benefits**

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a detailed formal plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as expenses if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(l) 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.

**(m) Revenue and other income**

(i) **Goods sold**

Revenue from the sale of goods 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 the significant risks and rewards of ownership have been transferred to the buyer, 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.

(ii) **Interest income**

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

**(n) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss.

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

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.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

**(o) Earnings per ordinary share**

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

Basic 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.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**(p) Operating segments**

In the previous years, a segment was a distinguishable component of the Company that was engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which was subject to risks and rewards that were different from those of other segments.

Following the adoption of FRS 8, 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 assess its performance, and for which discrete financial information is available.

The change in recognition of an operating segment has no impact on the presentation of operating segments for the Company.

## 3 PROPERTY, PLANT AND EQUIPMENT

| | Long term leasehold land RM'000 | Building RM'000 | Plant and equipment* RM'000 | Capital-work-in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **COST/VALUATION** | | | | | |
| At 1 January 2009, restated | 5,639 | 43,999 | 89,819 | 349 | 139,806 |
| Additions | - | - | 383 | 28,902 | 29,285 |
| Disposals | - | - | (42) | - | (42) |
| Transfer | - | - | 12,910 | (12,910) | - |
| At 31 December 2009/ 1 January 2010, restated | 5,639 | 43,999 | 103,070 | 16,341 | 169,049 |
| Additions | - | - | 261 | 8,828 | 9,089 |
| Disposals | - | - | (1,372) | - | (1,372) |
| Transfer | - | - | 10,448 | (10,448) | - |
| At 31 December 2010 | 5,639 | 43,999 | 112,407 | 14,721 | 176,766 |
| **DEPRECIATION AND IMPAIRMENT LOSS** | | | | | |
| At 1 January 2009, restated | | | | | |
| Accumulated depreciation | 1,857 | 16,187 | 60,428 | - | 78,472 |
| Accumulated impairment loss | - | - | - | - | - |
| | 1,857 | 16,187 | 60,428 | - | 78,472 |
| Depreciation for the year | 76 | 1,777 | 6,438 | - | 8,291 |
| Disposals | - | - | (41) | - | (41) |
| At 31 December 2009/ 1 January 2010, restated | | | | | |
| Accumulated depreciation | 1,933 | 17,964 | 66,825 | - | 86,722 |
| Accumulated impairment loss | - | - | - | - | - |
| | 1,933 | 17,964 | 66,825 | - | 86,722 |
| Depreciation for the year | 76 | 1,776 | 6,850 | - | 8,702 |
| Impairment loss | - | - | 3,210 | 9,098 | 12,308 |
| Disposals | - | - | (769) | - | (769) |
| At 31 December 2010 | | | | | |
| Accumulated depreciation | 2,009 | 19,740 | 72,906 | - | 94,655 |
| Accumulated impairment loss | - | - | 3,210 | 9,098 | 12,308 |
| | 2,009 | 19,740 | 76,116 | 9,098 | 106,963 |

## 3 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Long term leasehold land | Building | Plant and equipment | Capital workOin progress | Total |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **CARRYING AMOUNTS** | | | | | |
| At 1 January 2009, restated | 3,782 | 27,812 | 29,391 | 349 | 61,334 |
| At 31 December 2009/ 1 January 2010, restated | 3,706 | 26,035 | 36,245 | 16,341 | 82,327 |
| At 31 December 2010 | 3,630 | 24,259 | 36,291 | 5,623 | 69,803 |

* Plant and equipment comprise plant, machinery, motor vehicles, furniture and equipment.

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 RM49,221,489 (2009 - RM38,437,418).

3.2 During the year, due to the strategic re-alignment to its core businesses, the Company impaired the cost of four production lines that were no longer part of its focus. An amount of RM12,308,000 has been charged to the statement of comprehensive income.

3.3 Following the adoption of the amendments to FRS 117, *Leases*, where leasehold land, in substance is a finance lease, has been reclassified from prepaid lease payments to property, plant and equipment.

Long term leasehold land relates to the lease of land 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. Long term leasehold land are amortised over the lease term of the land.

As allowed by the transitional provision of FRS 117, the prepaid lease payments at valuation are stated on the basis of its 1968 valuation which has not been updated.

## 4 INTANGIBLE ASSETS

| | Note | Computer software RM'000 | Capital Work-In progress RM'000 | Total RM'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2009 | | 6,961 | - | 6,961 |
| Additions | | - | 607 | 607 |
| Transfer | | 108 | (108) | - |
| At 31 December 2009/ 1 January 2010 | | 7,069 | 499 | 7,568 |
| Additions | | - | 136 | 136 |
| Adjustment | 4.1 | - | (159) | (159) |
| Transfer | | 105 | (105) | - |
| At 31 December 2010 | | 7,174 | 371 | 7,545 |
| **AMORTISATION** | | | | |
| At 1 January 2009 | | 1,297 | - | 1,297 |
| Amortisation for the year | | 1,392 | - | 1,392 |
| At 31 December 2009/ 1 January 2010 | | 2,689 | - | 2,689 |
| Amortisation for the year | | 1,413 | - | 1,413 |
| At 31 December 2010 | | 4,102 | - | 4,102 |
| **CARRYING AMOUNTS** | | | | |
| At 1 January 2009 | | 5,664 | - | 5,664 |
| At 31 December 2009/ 1 January 2010 | | 4,380 | 499 | 4,879 |
| At 31 December 2010 | | 3,072 | 371 | 3,443 |

4.1 The adjustment is in relation to credit note received from a supplier for the additions in 2009.

## 5 INVENTORIES

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Finished goods | 33,362 | 24,684 |
| Raw materials | 36,244 | 30,200 |
| Packaging materials | 2,986 | 2,668 |
| Spare parts | 130 | - |
| | 72,722 | 57,552 |
| Recognised in profit or loss: | | |
| Inventories recognised as cost of sales | 386,035 | 390,947 |
| Write-down to net realisable value | 1,541 | 645 |

The write-down is included in cost of sales.

## 6 TRADE AND OTHER RECEIVABLES

| | Note | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|---|
| **TRADE** | | | |
| Amount owing by related companies | 6.1 | 5,049 | 4,466 |
| Trade receivables | | 65,744 | 86,630 |
| | | 70,793 | 91,096 |
| **NON-TRADE** | | | |
| Amount owing by related companies | 6.2 | 1,294 | 1,003 |
| Other receivables | | 1,831 | 1,101 |
| Deposits | | 1,258 | 1,169 |
| | | 4,383 | 3,273 |
| | | 75,176 | 94,369 |

**6.1** The amount owing by related companies is subject to normal trade terms.

**6.2** The amount owing by related companies is unsecured, interest free and repayable on demand.

## 7 CASH AND CASH EQUIVALENTS

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Cash at bank and on hand | 46,657 | 23,732 |
| Deposits placed with a licensed bank | 39,000 | 18,000 |
| | 85,657 | 41,732 |

The deposits placed with a licensed bank bear interest at 2.79% (2009: 2.00%) per annum.

## 8 CAPITAL AND RESERVES

### SHARE CAPITAL

| | Amount 2010 RM'000 | Number of shares 2010 '000 | Amount 2009 RM'000 | Number of shares 2009 '000 |
|---|---|---|---|---|
| Ordinary shares of RM 1 each | | | | |
| Authorised | 100,000 | 100,000 | 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.

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit and tax exempt income to frank approximately RM82,000,000 of its distributable reserves at 31 December 2010 if paid out as dividends.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 31 December 2010 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

## 9 DEFERRED TAX LIABILITIES

Deferred tax liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | RM | RM | RM | RM | RM | RM |
| Property, plant and equipment | - | - | (5,263) | (5,662) | (5,263) | (5,662) |
| Inventories | 385 | 161 | - | - | 385 | 161 |
| Receivables | 345 | 648 | - | - | 345 | 648 |
| Provisions | 776 | 703 | - | - | 776 | 703 |
| Tax assets/(liabilities) | 1,506 | 1,512 | (5,263) | (5,662) | (3,757) | (4,150) |

Movement in temporary differences during the year

| | At 1.1.2009 | Recognised in profit or loss (note 14) | At 31.12.2009 | Recognised in profit or loss (note 14) | At 31.12.2010 |
|---|---|---|---|---|---|
| | RM | RM | RM | RM | RM |
| Property, plant and equipment | (4,983) | (679) | (5,662) | 399 | (5,263) |
| Inventories | 562 | (401) | 161 | 224 | 385 |
| Receivables | 820 | (172) | 648 | (303) | 345 |
| Provisions | 1,301 | (598) | 703 | 73 | 776 |
| | (2,300) | (1,850) | (4,150) | 393 | (3,757) |

## 10 TRADE AND OTHER PAYABLES

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **TRADE** | | | |
| Amount owing to related companies | 10.1 | 12,397 | 20,622 |
| Trade payables | | 60,187 | 53,547 |
| | | 72,584 | 74,169 |
| **NON-TRADE** | | | |
| Amount owing to related companies | 10.2 | 2,073 | 1,298 |
| Accrued expenses | | 24,467 | 15,532 |
| Other payables | | 514 | 906 |
| | | 27,054 | 17,736 |
| | | 99,638 | 91,905 |

**10.1** The amount owing to related companies is subject to normal trade terms.

**10.2** The amount owing to related companies is unsecured, interest free and repayable on demand.

## 11 PROVISION

| | Employees' pension contribution 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| At 1 January | 283 | 247 |
| Addition during the year | 65 | 36 |
| Utilised during the year | - | - |
| At 31 December | 348 | 283 |

### Employees' Pension Contribution

Provision for employees' pension contribution reflects provisions made for additional contributions to the statutory Employees Provident Fund that would vest upon unionised staff having completed five years of service. The provisions have been made on the assumption that all relevant staff will complete their five year term and that therefore their benefits will vest in its entirety. No actuarial valuation has been performed as, in the opinion of the Directors, it would involve expenses out of proportion to the value to members of the Company.

## 12 PROFIT BEFORE TAX

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Profit before tax is arrived at after charging/(crediting):** | | |
| Operating lease rental | 2,252 | 2,993 |
| Write down of inventories | 1,541 | 645 |
| Depreciation of property, plant and equipment | 8,702 | 8,291 |
| Amortisation of intangible assets | 1,413 | 1,392 |
| Personnel expenses (including key management personnel) | | |
| Contributions to Employees Provident Fund | 5,005 | 4,249 |
| Wages, salaries and others | 38,324 | 35,124 |
| Impairment loss recognised/(reversed): | | |
| Property, plant and equipment | 12,308 | - |
| Trade receivables | (251) | 197 |
| Rental expense in respect of: | | |
| Premises | 151 | 251 |
| Equipment | 279 | 168 |
| Auditors' remuneration: | | |
| Statutory audit - current year | 85 | 85 |
| Other services | 15 | 5 |
| Loss arising from cash flow hedge | 4,398 | - |
| Net (gain)/loss on foreign exchange | | |
| Realised | (12,411) | (4,382) |
| Unrealised | 418 | (1,075) |
| Loss/(Gain) on disposal of property, plant and equipment | 325 | (4) |

## 13 KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Directors | | |
| Fees | 174 | 164 |
| Remuneration | 1,272 | 1,148 |
| Benefits-in-kind | 766 | 310 |
| Other emoluments | 20 | 24 |
| | 2,232 | 1,646 |
| Other key management personnel: | | |
| Short-term employee benefits | 2,089 | 1,799 |
| EPF contributions | 180 | 191 |
| | 2,269 | 1,990 |
| | 4,501 | 3,636 |

Directors' remuneration includes salaries, contributions to EPF, allowance and all other Directors related expenses. Included in salaries and other emoluments of Executive Directors are contributions to EPF by the Company amounting to RM89,000 (2009 – RM72,000).

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

## 14 INCOME TAX EXPENSE

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| **CURRENT TAX EXPENSE** | | |
| Current year | 26,610 | 20,231 |
| **DEFERRED TAX EXPENSE** | | |
| Origination and reversal of temporary differences | (829) | 1,850 |
| Under provision in prior years | 436 | - |
| | (393) | 1,850 |
| | 26,217 | 22,081 |
| **RECONCILIATION OF TAX EXPENSE** | | |
| Profit before tax | 90,104 | 82,481 |
| Income tax calculated using Malaysian tax rate of 25% | 22,526 | 20,620 |
| Non-deductible expenses | 3,255 | 1,461 |
| Under provided in prior years: | | |
| Deferred tax | 436 | - |
| | 26,217 | 22,081 |

At 31 December 2010, the Company has the following tax exempt income accounts:

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Tax exempt income arising from: | | |
| Reinvestment allowances claimed and utilised under the Income Tax Act, 1967 | 37,904 | 31,413 |
| Tax incentives claimed under the Promotion of Investments Act, 1986 | 3,564 | 3,564 |
| Income tax waived in accordance with Income Tax (Amendment) Act, 1999 | 1,533 | 1,533 |
| | 43,001 | 36,510 |

The above balances in the tax exempt income accounts, if agreed with the tax authorities, will enable the Company to distribute tax-exempt dividends to its members.

## 15 EARNINGS PER ORDINARY SHARE

**Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share at 31 December 2010 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Profit for the year | 63,887 | 60,400 |
| Weighted average number of ordinary shares of RM1 each in issue ('000) | 64,000 | 64,000 |
| Basic earning per share (sen) | 99.80 | 94.40 |

**Diluted earnings per ordinary share**

There were no diluted earnings per ordinary share for the Company as at 31 December 2010 and 2009.

## 16 DIVIDENDS

Dividends recognised in the current year by the Company are:

| | Sen per share (net of tax) | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2010** | | | |
| Final 2009 ordinary | | | |
| (10.00 sen less 25% tax and 5 sen tax exempt) | 12.50 | 8,000 | 1.7.2010 |
| First special interim 2010 ordinary | | | |
| (30.00 sen less 25% tax) | 22.50 | 14,400 | 1.7.2010 |
| Interim 2010 ordinary | | | |
| (10.00 sen less 25% tax) | 7.50 | 4,800 | 28.12.2010 |
| Second special interim 2010 ordinary | | | |
| (40.00 sen less 25% tax) | 30.00 | 19,200 | 28.12.2010 |
| Total amount | | 46,400 | |
| **2009** | | | |
| Final 2008 ordinary | | | |
| (6.25 sen less 25% tax and 3.75 sen tax exempt) | 8.44 | 5,400 | 1.7.2009 |
| Interim 2009 ordinary | | | |
| (6.25 sen less 25% tax) | 4.69 | 3,000 | 28.12.2009 |
| Special interim 2009 ordinary | | | |
| (70.00 sen less 25% tax) | 52.50 | 33,600 | 28.12.2009 |
| Total amount | | 42,000 | |

After the reporting period, the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company in the Annual General Meeting.

| | Sen per share (net of tax) | Total amount RM'000 |
|---|---|---|
| Final 2010 ordinary (10.00 sen per ordinary share less tax at 25% and 5.00 sen per ordinary share, tax exempt) | 12.50 | 8,000 |

## 17 OPERATING SEGMENTS

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

## 18 FINANCIAL INSTRUMENTS

Certain comparative figures have not been presented for 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7.

### 18.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as loans and receivables and other financial liabilities measured at amortised cost.

| | Carrying amount RM'000 |
|---|---|
| **2010** | |
| Financial assets | |
| Trade and other receivables | 75,176 |
| Cash and cash equivalents | 85,657 |
| | 160,833 |
| Financial liabilities | |
| Trade and other payables | (99,638) |

### 18.2 Net gains and losses arising from financial instruments

| | 2010 RM'000 |
|---|---|
| Net (losses) / gains arising from: | |
| Loans and receivables | (164) |
| Financial liabilities measured at amortised cost | 13,291 |
| | 13,127 |

## 18.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

## 18.4 Credit risk

Credit risk refers to the risk that a counter party i.e. a trade customer will default on its contractual obligations resulting in financial loss to the Company. 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. The Company also maintains a large number of customers so as to limit high credit concentration in a single customer.

**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 and customers are also required to place collaterals with the Company in the forms of bank guarantees, cash deposits or property charge.

*Exposure to credit risk, credit quality and collateral*

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days which are deemed to have higher credit risk, are monitored individually.

Receivables amounting to RM37,533,000 (2009: RM39,378,000) are secured by bank guarantees, cash deposits and customers' properties charged to the Company.

*Impairment losses*

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

| | Gross | Individual impairment | Collective impairment | Net |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **2010** | | | | |
| Not past due | 46,266 | - | - | 46,266 |
| Past due 0 - 30 days | 17,845 | - | - | 17,845 |
| Past due 31 - 90 days | 1,307 | - | - | 1,307 |
| Past due more than 90 days | 9,455 | (9,129) | - | 326 |
| | 74,873 | (9,129) | - | 65,744 |

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

| | 2010 RM'000 |
|---|---|
| At 1 January | 9,380 |
| Impairment loss reversed | (251) |
| At 31 December | 9,129 |

The allowance for impairment losses at year end amounting to RM7,803,000 relates to trade receivable balances which are under legal proceedings and the remaining balance relates to invoices which are considered doubtful by management.

The allowance account in respect of 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 receivable directly.

**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 does not specifically monitor the ageing of the amount owing by related companies as these are related companies within the FrieslandCampina Group. The related companies are not required to place any collateral with the Company.

*Impairment losses*

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

**18.5 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.

**Maturity analysis**

As at the end of the reporting period, the Company has no financial liabilities other than trade and other payables of RM99,638,000. The trade and other payables of the Company do not bear any contractual interest and are expected to be settled within 1 year.

### 18.6 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.

#### 18.6.1 Currency risk

The Company undertakes trade transactions denominated in foreign currencies such as United States Dollar (USD), New Zealand Dollar (NZD), Singapore Dollar (SGD), Euro (EUR), Australia Dollar (AUD), Great Britain Pound (GBP) and Thai Baht (THB) with a number of related companies and third parties, where the amounts outstanding are exposed to currency translation risks.

*Risk management objectives, policies and processes for managing the risk*

The Company uses forward exchange contracts to hedge its foreign currency risk. The Company hedges only its USD denominated trade transactions as it is the major foreign currency traded by the Company. As at the end of the reporting period, there is no outstanding forward exchange contract.

*Exposure to foreign currency risk*

The Company's exposure to foreign currency risk, based on carrying amounts as at the end of the reporting period was:

| | Denominated in | | | | | | |
|---|---|---|---|---|---|---|---|
| | USD RM'000 | NZD RM'000 | SGD RM'000 | EUR RM'000 | AUD RM'000 | GBP RM'000 | THB RM'000 |
| **2010** | | | | | | | |
| Amount owing by related companies | 5,078 | - | - | 3 | - | - | - |
| Cash at bank | 9,776 | - | - | - | - | - | - |
| Trade payables | (18,436) | (442) | (39) | (1,705) | (449) | (33) | - |
| Amount owing to related companies | (6,768) | - | - | (3,945) | - | - | (317) |
| | (10,350) | (442) | (39) | (5,647) | (449) | (33) | (317) |
| **2009** | | | | | | | |
| Amount owing by related companies | 4,468 | - | - | 414 | - | - | - |
| Cash at bank | 1,636 | - | - | - | - | - | - |
| Trade payables | (15,309) | (588) | (341) | (767) | (310) | - | - |
| Amount owing to related companies | (8,029) | - | - | (13,475) | - | - | (219) |
| | (17,234) | (588) | (341) | (13,828) | (310) | - | (219) |

*Currency risk sensitivity analysis*

The following table demonstrates the indicative pre-tax effects on the profit or loss of applying reasonably foreseeable market movements of 10% in the following currency exchange rates:

| | 2010<br>Effect on profit or loss<br>RM'000 |
|---|---|
| USD | 1,035 |
| EUR | 565 |

The movements in other currency exchange rates are not expected to have any significant effect on the profit or loss.

### 18.6.2 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 short term borrowing as of the financial year end. The Company places short term deposits with a licensed bank 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.

### 18.6.3 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.

### 18.7 Fair values of financial assets and liabilities

The carrying amounts of the financial assets and financial liabilities as reported in the statement of financial position approximate their fair values due to the relatively short term nature of these financial instruments.

## 19 CAPITAL MANAGEMENT

The Company's objectives when managing capital is 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 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 to future development of the business and the payment of dividends to owners of the Company.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

## 20 OPERATING LEASES

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Within one year | 2,733 | 1,559 |
| In the second to fifth years inclusive | 3,692 | 2,265 |
| | 6,425 | 3,824 |

Operating lease payments represent rentals payable by the Company for certain vehicles, forklifts and machinery. Leases are negotiated and rentals are fixed for a term of between 4 to 5 years.

## 21 CAPITAL COMMITMENTS

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Property, plant and equipment | | |
| Approved but not contracted for | 16,700 | 33,900 |
| Contracted but not provided for | 471 | 621 |

## 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 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 or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the Directors of the Company, and members of senior management of the Company.

The significant related party transactions of the Company, other than key management personnel compensation (see note 13), are as follows:

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Immediate holding company | | |
| Management fee payable to | | |
| FrieslandCampina DLMI Holding BV (f.k.a. Frint Beheer IV BV) | 35 | 33 |
| Related companies | | |
| Sales to: | | |
| FrieslandCampina (Singapore) Pte. Ltd. | 34,927 | 23,326 |
| FrieslandCampina Hong Kong Ltd. | 1,488 | 4,150 |
| Purchases from: | | |
| FrieslandCampina Nederland Holding BV | 54,765 | 46,833 |
| FrieslandCampina Foremost (Thailand) Plc | 3,225 | 4,040 |
| P.T. Frisian Flag Indonesia | 53,888 | 58,127 |
| Know-how, Trademark Licence and Management Support fees paid to: | | |
| Friesland Brands BV | 23,719 | 20,501 |
| Shared services charges paid to: | | |
| FrieslandCampina Service Centre Asia Pacific Sdn. Bhd. | 1,818 | 1,507 |
| Shared services fees received from: | | |
| FrieslandCampina Service Centre Asia Pacific Sdn. Bhd. | 36 | 36 |
| FrieslandCampina Business Development Unit Sdn. Bhd. | 36 | 36 |

The transactions have been entered into in the normal course of business and have been established under negotiated terms.

There are no allowances for impairment loss being made in respect of the balances due from related companies.

The outstanding net amounts due from/(to) related companies as at 31 December are disclosed in Note 6 and Note 10 respectively.

## 23 SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

**FRS 139, Financial Instruments: Recognition and Measurement**

The adoption of FRS 139 has resulted in several changes to accounting policies relating to recognition and measurement of financial instruments. Significant changes in accounting policies are as follows:

**Derivatives**

Prior to the adoption of FRS 139, derivative contracts were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now categorised as fair value through profit or loss and measured at their fair values with the gain or loss recognised in the profit or loss other than derivatives designated as hedging instrument which are accounted for in accordance with the hedge accounting requirements as described in the hedge accounting policy (see note 2(b)(iii)).

**Staff loans**

Prior to the adoption of FRS 139, staff loans were recorded at cost. With the adoption of FRS 139, staff loans are now recognised initially at their fair values, which are estimated by discounting the expected cash flows using the current market interest rate of a loan with similar risk and tenure.

**Impairment of trade and other receivables**

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management. With the adoption of FRS 139, an impairment loss is recognised for trade and other receivables 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.

These changes in accounting policy have been made in accordance with the transitional provisions of FRS 139. In accordance to the transitional provisions of FRS 139 for first-time adoption, adjustments arising from remeasuring the financial instruments at the beginning of the financial year were recognised as adjustments of the opening balance of the retained earnings. Comparatives are not adjusted.

Consequently, the adoption of FRS 139 does not affect the basic earnings per ordinary share for prior periods. It is not practicable to estimate the impact arising from the adoption of FRS 139 to the current year's basic earnings per ordinary share.

**FRS 8, Operating Segments**

As of 1 January 2010, the Company determines and presents operating segments based on the information that is provided to the Board of Directors, who are collectively the Company's chief operating decision makers. This change in accounting policy is due to the adoption of FRS 8. Previously, operating segments were determined and presented in accordance with FRS $114_{2004}$, *Segment Reporting*.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per ordinary share.

**FRS 101 (revised), Presentation of Financial Statements**

The Company applies FRS 101 (revised), which became effective as of 1 January 2010. As a result, the Company presents all non-owner changes in equity in the statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per ordinary share.

**FRS 117, Leases**

The Company has adopted the amendment to FRS 117. The Company has reassessed and determined that all leasehold land of the Company which are in substance is finance lease and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the basic earnings per ordinary share for the current and prior periods.

## 24 COMPARATIVE FIGURES

**FRS 101 (revised), Presentation of Financial Statements**

Arising from the adoption of FRS 101 (revised), income statements for the year ended 31 December 2009 have been re-presented as statement of comprehensive income. All non-owner changes in equity that were presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity.

**FRS 117, Leases**

Following the adoption of the amendment to FRS 117, certain comparatives have been re-presented as follows:

| | 31.12.2009 | | 1.1.2009 | |
|---|---|---|---|---|
| | As restated RM'000 | As previously stated RM'000 | As restated RM'000 | As previously stated RM'000 |
| **Cost/Valuation** | | | | |
| Property, plant and equipment | 169,049 | 163,410 | 139,806 | 134,167 |
| Prepaid lease payments | - | 5,639 | - | 5,639 |
| **Amortisation** | | | | |
| Property, plant and equipment | 86,722 | 84,789 | 78,472 | 76,615 |
| Prepaid lease payments | - | 1,933 | - | 1,857 |
| **Net book value** | | | | |
| Property, plant and equipment | 82,327 | 78,621 | 61,334 | 57,552 |
| Prepaid lease payments | - | 3,706 | - | 3,782 |

The following comparative figures have been reclassified to conform with the current year presentation:

| | 31.12.2009 | | 1.1.2009 | |
|---|---|---|---|---|
| | As restated RM'000 | As previously stated RM'000 | As restated RM'000 | As previously stated RM'000 |
| **Balance sheet** | | | | |
| Receivables, deposits and prepayments | - | 89,031 | - | 117,169 |
| Amount owing by related companies | - | 5,469 | - | 5,709 |
| Trade and other receivables | 94,369 | - | 122,858 | - |
| Prepayments | 131 | - | 20 | - |
| Payables and accruals | - | 69,985 | - | 97,602 |
| Amount owing to related companies | - | 21,920 | - | 22,478 |
| Trade and other payables | 91,905 | - | 120,080 | - |

## 25 SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the prescribed format of presentation.

The breakdown of the retained profits of the Company as at 31 December 2010, into realised and unrealised profits, pursuant to the directive, is as follows:

| | RM'000 |
|---|---|
| Total retained profits: | |
| Realised | 137,647 |
| Unrealised | (4,175) |
| | 133,472 |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

# statement by directors
## pursuant to section 169(15) of the companies act, 1965

In the opinion of the Directors, the financial statements set out on pages 30 to 59 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

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

SEBASTIAAN GIJSBERTUS VAN DEN BERG

HUANG SHI CHIN

Petaling Jaya,
24 February 2011

# statutory declaration
## pursuant to section 169(16) of the companies act, 1965

I, Petrus Johannes Kerckhaert, 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 30 to 60 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 on 24 February 2011.

PETRUS JOHANNES KERCKHAERT

Before me:
ARSHAD ABDULLAH (W550)
Commission for Oaths
Kuala Lumpur

# independent auditors' report

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Dutch Lady Milk Industries Berhad, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 30 to 59.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia and for such internal control as the Directors determine as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act 1965, in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

### OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 25 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

### OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

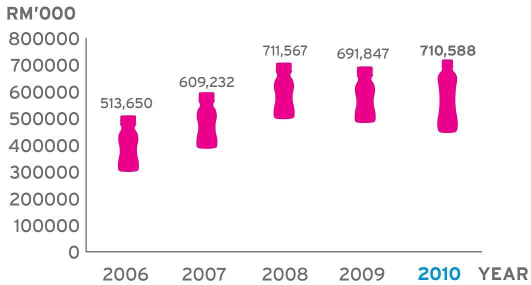
KPMG
Firm Number: AF 0758
Chartered Accountants

Chew Beng Hong
Approval Number: 2920/02/12(J)
Chartered Accountant

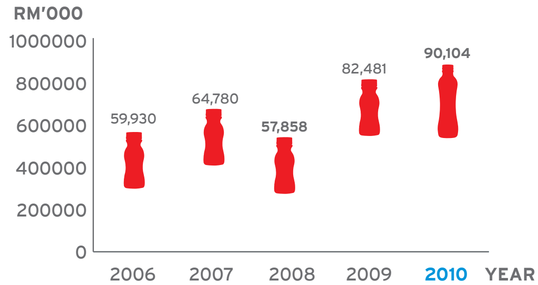
Petaling Jaya, Selangor
24 February 2011

# financial highlights

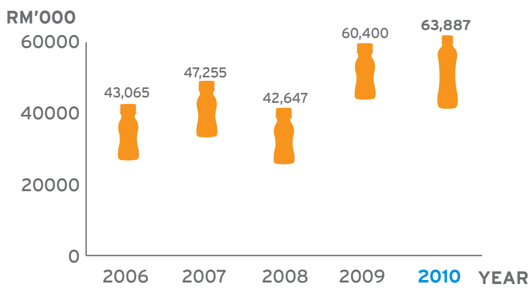
## REVENUE



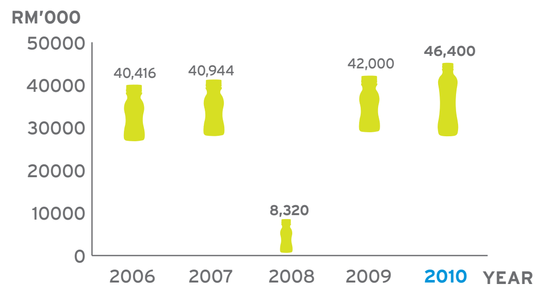

## PROFIT BEFORE TAX



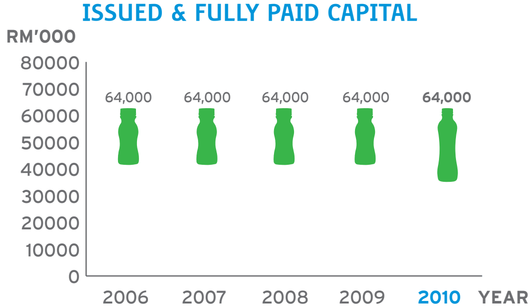

## NET PROFIT FOR THE YEAR



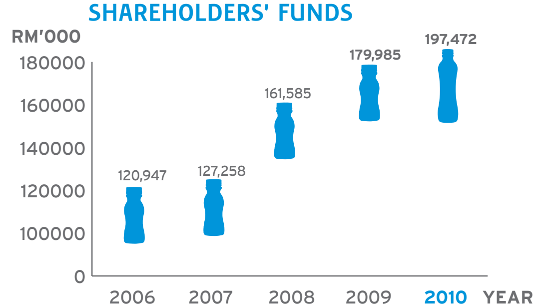

## NET DIVIDEND PAID



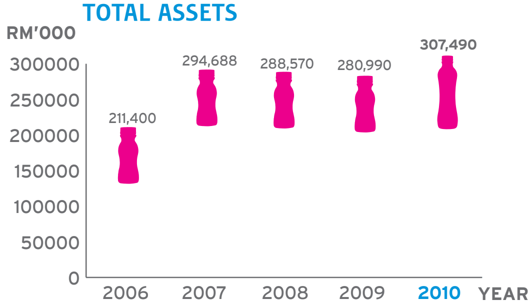

## ISSUED & FULLY PAID CAPITAL



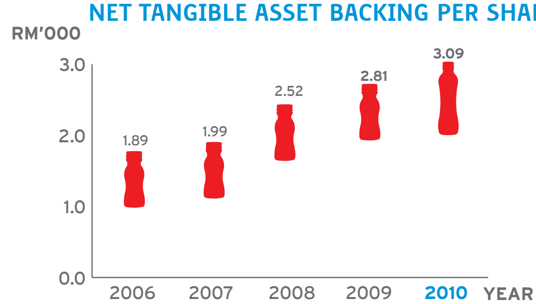

## SHAREHOLDERS' FUNDS



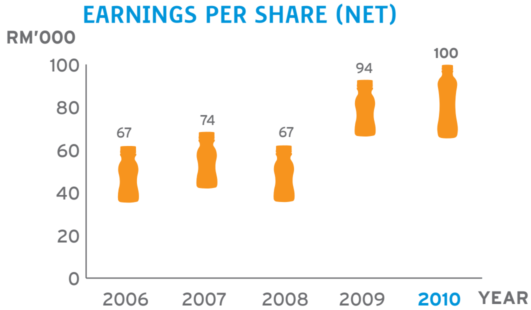

## TOTAL ASSETS




## NET TANGIBLE ASSET BACKING PER SHARE




## EARNINGS PER SHARE (NET)



# additional compliance information

## MATERIAL CONTRACTS

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

## SHARE BUYBACKS

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

## OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

During the financial year, the Company did not issue any options, warrants or convertible securities.

## AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

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

## IMPOSITION OF SANCTIONS AND / OR PENALTIES

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

## NON-AUDIT FEES

During the financial year, the Company paid RM15,000 in non-audit fees to the External Auditors.

## PROFIT ESTIMATE, FORECAST OR PROJECTION

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

## PROFIT GUARANTEES

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

## REVALUATION POLICY ON LANDED PROPERTIES

The Company does not have a policy to revalue its landed properties.

## UTILISATION OF PROCEEDS

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

# other information

## Analysis of Shareholdings as at 16 March 2011

| | | | |
|---|---|---|---|
| Class of Shares | Ordinary shares of RM1.00 each | | |
| Voting Rights | On show of hands | : | 1 vote |
| | On a poll | : | 1 vote for each share held |

## Distribution Schedule of Shareholders

**Size of Holdings**

| | No. of Shareholders | % of Shareholders | No. of Shares | % of Shareholding |
|---|---|---|---|---|
| Less than 100 shares | 66 | 1.75 | 1,049 | 0.00 |
| 100 to 1,000 shares | 1,923 | 51.01 | 1,442,856 | 2.25 |
| 1,001 to 10,000 shares | 1,577 | 41.83 | 5,772,792 | 9.02 |
| 10,001 to 100,000 shares | 186 | 4.93 | 4,398,848 | 6.87 |
| 100,001 to Less than 5% of issued shares | 16 | 0.42 | 5,233,855 | 8.18 |
| 5% and above of the issued shares | 2 | 0.05 | 47,150,600 | 73.67 |
| Total | 3,770 | 100.00 | 64,000,000 | 100.00 |

| Name of 30 Largest Shareholders | No. of Shares | % of Holdings |
|---|---|---|
| 1. FrieslandCampina DLMI Malaysia Holding B.V.* | 32,614,800 | 50.96 |
| 2. Amanahraya Trustees Berhad* - Skim Amanah Saham Bumiputera | 14,343,500 | 22.71 |
| 3. Kumpulan Wang Persaraan | 1,441,500 | 2.25 |
| 4. Aun Huat & Brothers Sdn Bhd | 571,100 | 0.89 |
| 5. Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Aun Huat & Brothers Sdn Bhd | 555,300 | 0.87 |
| 6. Yong Siew Lee | 472,000 | 0.74 |
| 7. Cartaban Nominees (Asing) Sdn Bhd - SSBT Fund W4B3 for Wasatch Emerging Markets Small Cap Fund | 422,055 | 0.66 |
| 8. Yeo Khee Bee | 413,000 | 0.65 |
| 9. Cartaban Nominees (Asing) Sdn Bhd - BBH And Co Boston For Fidelity Low-Priced Stock Fund | 250,000 | 0.39 |
| 10. Quek Guat Kwee | 162,000 | 0.25 |
| 11. Kumpulan Wang Simpanan Guru-Guru | 156,300 | 0.24 |
| 12. Citigroup Nominees (Asing) Sdn Bhd - CBNY For DFA Emerging Markets Small Cap Series | 125,700 | 0.20 |
| 13. Lee Sim Kuen | 120,000 | 0.19 |
| 14. Tan Kim Onm | 112,900 | 0.18 |
| 15. Wong So-Ch'i | 111,000 | 0.17 |
| 16. Tong Yoke Kim Sdn Bhd | 110,000 | 0.17 |
| 17. Wong So Haur | 109,000 | 0.17 |
| 18. Chow Kok Meng | 102,000 | 0.16 |
| 19. Amanahraya Trustees Berhad - Public Dividend Select Fund | 95,800 | 0.15 |
| 20. Foo Loke Weng | 80,004 | 0.13 |

| | | | |
|---|---|---|---|
| 21. | Tan Pak Nang | 75,000 | 0.12 |
| 22. | Lim Teh Realty Sdn Berhad | 71,600 | 0.11 |
| 23. | BHLB Trustee Berhad<br>- Trust Account For EPF Investment For Member Savings Scheme | 63,000 | 0.10 |
| 24. | Citigroup Nominees (Tempatan) Sdn Bhd<br>- Exempt An For Kenanga Investors BHD | 62,000 | 0.10 |
| 25. | Chua Sim Hong | 61,900 | 0.10 |
| 26. | HSBC Nominees (Tempatan) Sdn Bhd<br>- HSBC (M) Trustees Bhd For Kenanga Growth Fund | 60,500 | 0.09 |
| 27. | HSBC Nominees (Tempatan) Sdn Bhd<br>- Pledged Securities Account For Goh Hiong Eng | 60,000 | 0.09 |
| 28. | Sak Moy @ Sak Swee Len | 58,000 | 0.09 |
| 29. | Lim Pin Kong | 55,400 | 0.09 |
| 30. | Amanahraya Trustee Berhad - Amanah Saham Malaysia | 55,300 | 0.09 |
| | | 53,182,959 | 83.10 |

*Registered in the Company's Register as Substantial Shareholders

## Substantial Shareholders

| Name | Direct | % | Indirect | % |
|---|---|---|---|---|
| 1. FrieslandCampina DLMI Malaysia Holding B.V.* | 32,614,800 | 50.96 | 0 | 0.00 |
| 2. Amanahraya Trustees Berhad<br>- Skim Amanah Saham Bumiputra | 14,343,500 | 22.71 | 0 | 0.00 |

## Directors' Shareholdings

| Name | Direct | % | Indirect | % |
|---|---|---|---|---|
| 1. Dato' Zainal Abidin bin Putih | - | | - | |
| 2. Sebastiaan G. van den Berg | - | | - | |
| 3. Foo Swee Leng | - | | - | |
| 4. Boey Tak Kong | - | | - | |
| 5. Dato' Dr. Mhd. Nordin bin Mohd. Nor | - | | - | |
| 6. Huang Shi Chin | - | | - | |
| 7. Kapil Garg | - | | - | |

## Particulars of Properties as at 31 December 2010

| | | |
|---|---|---|
| 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 24 years to 45 years | 22 years |
| Net Book Value (RM'mln) | 24.9 | 3.0 |


DUTCH LADY
kid


DUTCH LADY
school


DUTCH LADY
full cream
milk


DUTCH LADY
chocolate


DUTCH LADY
low fat


DUTCH LADY
0%
Fat


DUTCH LADY
Fresh
milk


DUTCH LADY
1 2 3
ADVANCE
5x DHA


DUTCH LADY
4 5 6
ADVANCE
5x DHA


Friso
gold
3


Friso
gold
4


Baru
Friso
mum
gold


Spread the Goodness of
MILK

# proxy form

| No. of Shares held |
|---|
| |

## DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)

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

### FORM OF PROXY

I/We ..........................................................................................(NRIC No. ..........................................................................................)

of ..........................................................................................................................................................................

being a member/members of DUTCH LADY MILK INDUSTRIES BERHAD ("the Company"), do hereby appoint #the Chairman of the Meeting

or ..........................................................................................................................................................................

(NRIC No. ...................................................) of ..................................................................................................................

..........................................................................................................................................................................

or failing whom .......................................................................... (NRIC No. ...................................... ) of ....................................

..........................................................................................................................................................................

as my/our proxy/proxies to vote for me/us and on my/our behalf at the Forty-Eighth Annual General Meeting of the Company to be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan, on Thursday, 19 May 2011 at 10.00 a.m. and any adjournment thereof, in respect of my/our shareholding in the manner indicated below:-

| RESOLUTION NO. | | *FOR | *AGAINST |
|---|---|---|---|
| Ordinary Resolution 1 | Receive the Audited Financial Statements for the financial year ended 31 December 2010, together with the Reports of the Directors and Auditors' thereon. | | |
| Ordinary Resolution 2 | Approve the payment of final dividend of gross 10.0 sen per share, less income tax, and 5.0 sen per share, tax exempt. | | |
| Ordinary Resolution 3 | Approve the Directors' fees for the financial year ended 31 December 2010. | | |
| Ordinary Resolution 4 | Re-election of Mr. Foo Swee Leng. | | |
| Ordinary Resolution 5 | Re-election of Dato' Dr. Mhd. Nordin bin Mohd. Nor | | |
| Ordinary Resolution 6 | Re-election of Mr. Kapil Garg. | | |
| Ordinary Resolution 7 | Re-appointment of Messrs KPMG as the Company's Auditors. | | |
| Ordinary Resolution 8 | Approve the Proposed New and Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |

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

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

Signed this ................................ day of .............................2011

..........................................................................................

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

Notes:-

A Member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy/proxies to attend and vote instead of him. A proxy need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

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

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

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

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