



FrieslandCampina air

ANNUAL REPORT
2018



**Nourishing Malaysians
for more than 55 years**

Dutch Lady Milk Industries Berhad





Nourishing Malaysians for more than 55 years, Dutch Lady Milk Industries Berhad (Dutch Lady Malaysia) dairy milk products have become a daily life choice for Malaysians of all ages who have come to trust the quality, reliability and natural goodness we offer. Our daily dairy nutrition energizes, develops and nurtures potential! As part of FrieslandCampina's family, we want to provide better and affordable dairy nutrition that contributes to good health. We also work to provide a good living to dairy farmers, by supporting Malaysian farms with high quality dairy development expertise. We aim to nourish health, support energetic lifestyles, and nurture wholesome livelihoods for generations to come.



**REV:
>RM1 BILLION
MKT CAP:
RM4 BILLION**



**ESTABLISHED
IN 1963**




**25,000
PLEDGES
FOR A HEALTHIER
AND ACTIVE LIFESTYLE**



**MILLIONS
OF CONSUMERS
DAILY**




**RM171.3
MILLION
2018 PROFIT**



**DDP PRODUCED
85 MILLION
PACKS IN
5 YEARS**



1

NO.1
DAIRY COMPANY
IN MALAYSIA

68 MILLION
PACKS,
2 MILLION
STUDENTS




 **HALAL PRODUCER**
>50 YEARS & IMPLEMENTED
HALAL ASSURANCE SYSTEM


~600
EMPLOYEES



FARMER2FARMER
HELPS
300 FARMERS
NATIONALLY




352,000
STUDENTS
PARTICIPATIONS

DRINK
MOVE
BE STRONG



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FrieslandCampina 

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

www.frieslandcampina.com



Soft copy version of Dutch Lady Malaysia Annual Report 2018

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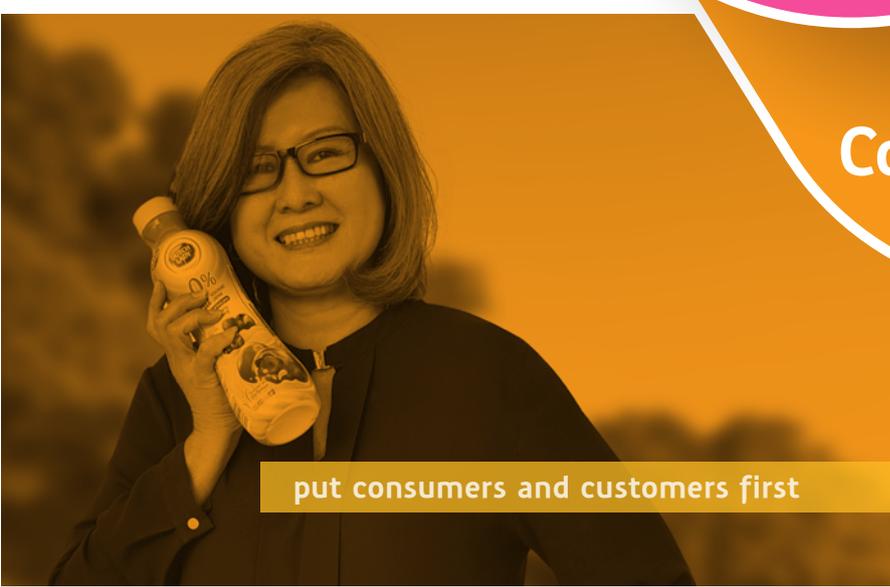
Get access to the soft copy of our reports, video and contact information



acting like an owner



provide better nutrition for the world



put consumers and customers first



Owners'
mindset




Purpose
driven



Commercially
obsessed

Winning
in the Market

Our winning market position is made possible with our WIN-WIN way of working by acting like an **owner**, putting our **customers** and **consumers** first and always keeping our **purpose** in mind.

OUR BRAND'S PORTFOLIO





TRUSTED BY
GENERATIONS
FOR OVER
140
YEARS



16
PRODUCTS WITH
HEALTHIER
CHOICE LOGO

* HCL membantu pengguna mengenal pasti produk yang lebih sihat dalam kategori yang sama



DUTCH LADY
MALAYSIA
IS ONE OF THE
TOP 5
STRONGEST BRANDS
IN MALAYSIA

* Source: BrandFinance - Malaysia 100 2018 - The Annual Report on the most valuable Malaysian Brands



RANKED
35th
ON THE TOP 100
MOST VALUABLE
MALAYSIAN BRANDS
LEAGUE TABLE 2018

* Source: BrandFinance - Malaysia 100 2018 - The Annual Report on the most valuable Malaysian Brands



We are

Purpose
drive



Dutch Lady Malaysia's purpose is to provide better nutrition for Malaysians and realise a good living for our farmers. We act to realise this today and for generations to come.





We aim for
Commerci
obsesse



Our customers and consumers come first in all we do and drive us to do better everyday. We focus on making all our products market leaders and move with speed and decisiveness when opportunities open up.

ally
d



We possess an
Owners'
mindset



Every Dutch Lady Malaysia's employee practices accountability and responsibility in our actions – ensuring we make the right investments to fulfil our purpose. At the same time, we are prudent on costs and sustainability.

Breakfast with No. 1* Milk

Breakfast kick-starts your metabolism. Therefore it is the most important meal of the day that helps you and your family through your morning at work or at school. Dutch Lady PureFarm milk fortified with wholesome nutrients such as calcium, protein and vitamins A, D3 and B2 gives you the energy you need to get things done and helps families to stay healthy, focused and enthusiastic every day.



Dutch Lady PureFarm is the No.1* milk in the milk category for Peninsular Malaysia.

*Based on Retail Index Service for Liquid Milk category for the 12 months ending February 2018 in Total Peninsular Malaysia (Copyright © 2018, The Nielson Company (M) Sdn. Bhd.).

GUNA SEBELUM / USE



Dutch Lady Milk Industries Bhd (5063-V)

www.dutchlady.com.my



MS 1500:2009
1069-01/2004

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Sixth Annual General Meeting of the Company will be held at Ballroom 2, Level 3D, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Friday, 26 April 2019 at 9 a.m. for the purpose of transacting the following business:

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018, together with the Reports of the Directors and Auditors thereon (Please refer to Explanatory Note (i)).
2. To approve the proposed increase and payment of Directors' fees of up to RM480,000 for the financial year ending 31 December 2019, to be made payable quarterly (Please refer to Explanatory Note (ii)).
3. To approve the proposed increase and payment of Directors' benefits (other than Directors' fees) of up to RM100,000 to Non-Executive Directors for the period from 1 January 2019 until the conclusion of the next Annual General Meeting of the Company. (Please refer to Explanatory Note (ii)).
4. To re-elect the following Directors who retire by rotation pursuant to Article 93(a) of the Constitution of the Company:
 - (a) Saw Chooi Lee
 - (b) Bernardus Hermannus Maria Kodden
5. To re-appoint the following Directors who were appointed during the year and retire pursuant to Article 96 of the Constitution of the Company:
 - (a) Tengku Nurul Azian binti Tengku Shahrman
 - (b) Jurgen Clemens Johannes Sandmann
 - (c) Datin Seri Sunita Mei-Lin Rajakumar
6. To re-appoint PricewaterhouseCoopers PLT (LLP0014401-LCA & AF: 1146) as the Company's auditors and to authorise the Directors to fix their remuneration.

Resolution 1

Resolution 2

Resolutions 3 and 4

Resolutions 5, 6 and 7

Resolution 8

AS SPECIAL BUSINESS

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

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

"**THAT** approval be and is hereby given to the Company to enter into and to give effect to the Recurrent Related Party Transactions of a Revenue or Trading Nature as stated in Section 2.4 with the specified classes of Related Parties as stated in Section 2.3 of the Circular to Shareholders dated 28 March 2019 which are necessary for the Company's day-to-day operations subject to the following:-

ORDINARY
RESOLUTION:
Resolution 9



- (i) the transactions are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders; and
- (ii) the aggregate value of such transactions conducted pursuant to the Shareholders' Mandate during the financial year will be disclosed in the Annual Report for the said financial year;

AND THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the Meeting the authority is renewed; or
- (b) the expiration of the period within which the next AGM of the Company subsequent to the date it is required to be held pursuant to Section 340(2) of the Companies Act, 2016 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

8. RETENTION OF INDEPENDENT DIRECTOR OF THE COMPANY

"**THAT** approval be and is hereby given to Dato' Zainal Abidin bin Putih who has served as an Independent Non-Executive Director of the Company for cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company."

9. PROPOSED ADOPTION OF A NEW CONSTITUTION OF THE COMPANY

"**THAT** the proposed New Constitution as set out in the Circular to Shareholders dated 28 March 2019 be and is hereby adopted as the Constitution of the Company in place of the existing Constitution of the Company **AND THAT** the Board of Directors of the Company be and is hereby authorised to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities, and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

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

By Order of the Board

KATINA NURANI BINTI ABD RAHIM (L.S. No. 9652)

Company Secretary
Petaling Jaya
28 March 2019

Resolution 10

**SPECIAL
RESOLUTION:
Resolution 11**

Notice of Annual General Meeting

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy/proxies to attend and vote instead of him. A proxy need not be a member of the Company. A proxy appointed to attend and vote at the Meeting shall have the same rights as a Member to speak at the Meeting.
2. Save for an Exempt Authorised Nominee as defined under the Central Depositories Act which may appoint multiple proxies in respect of each Omnibus Account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member (including an authorised nominee) shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting. In any case, where more than one (1) proxy is appointed, such appointment shall not be valid unless the proportion of the holdings represented by each proxy is specified.
3. The instrument appointing the proxy must be signed by the Member or his attorney duly authorised in writing, or if the appointer is a corporation, the instrument must be executed under its common seal or under the hand of its officer or attorney duly authorised.
4. Only Members whose names appear in the Record of Depositors as at 20 April 2019 (General Meeting Record of Depositors) shall be entitled to attend and vote at the Meeting or appoint proxy/proxies to attend and vote on his behalf.
5. To be valid, the original instrument appointing a proxy, duly completed (and if applicable, the power of attorney or other authority under which it is originally signed or notarially certified copy of that power of authority) must be deposited at the office of Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than 24 hours before the time set for holding the Meeting or any adjournment thereof (or in the case of poll, before the time appointed for the taking of the poll).
6. Pursuant to Paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the Notice of the Fifty-Sixth AGM will be put to vote by way of poll.
7. Registration and Door Gifts

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

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

Explanatory Notes to the Agenda

(i) First item of the Agenda

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

(ii) Resolutions 1 and 2:

The proposed increase of the Directors' fees and benefits for the financial year ending 31 December 2019, is as follows:



Directors' Fees and Benefits	2018 (per annum)	2019 (per annum)
Chairman's Fees	RM106,837	RM115,384
Non-Executive Directors' fees (other than FC DLMI's Nominee Directors)	RM60,900	RM65,772
Chairman of Audit Committee - allowance	RM7,500	RM8,100
Member of Audit Committee - allowance	RM5,000	RM5,400
Chairman of Nominating & Remuneration Committee - allowance	RM1,500	RM1,620
Meeting Attendance	RM1,000 per meeting	RM1,300 per meeting

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

Please refer to the Circular to Shareholders dated 28 March 2019 and despatched together with the Company's abridged Annual Report for the financial year ended 31 December 2018.

(iv) Resolution 10: Retention of Dato' Zainal Abidin bin Putih as an Independent Director of the Company

The Nominating & Remuneration Committee has assessed the independence of Dato Zainal Abidin bin Putih who has served as Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, and arising therefrom, the Board recommends that he continue to act as Independent Non-Executive Director of the Company based on the following justifications:-

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

(v) Resolution 11: Proposed Adoption of the New Constitution of the Company

The Resolution 11, if passed, will streamline the Company's Constitution and corporate practices with the provisions of the Companies Act 2016, to take into account the amendments made by Bursa Securities to the Main LR and to enhance administrative efficiency. The details of the New Constitution are set out in the Circular to Shareholders dated 28 March 2019.

Corporate Information

BOARD OF DIRECTORS

CHAIRMAN

Dato' Zainal Abidin bin Putih
Senior Independent Non-Executive Director
(appointed 27.05.2009)

DIRECTORS

Tarang Gupta
Non-Independent Executive Director
Managing Director
(appointed 1.01.2018)

Saw Chooi Lee
Non-Independent Non-Executive Director
(appointed 1.01.2014)

Boey Tak Kong
Independent Non-Executive Director
(appointed 12.11.2001)

Bernardus Hermannus Maria Kodden
Non-Independent Non-Executive Director
(appointed 1.01.2018)

Dato' Dr Rosini binti Alias
Non-Independent Non-Executive Director
(appointed 16.03.2018)

Tengku Nurul Azian binti Tengku Shahrman
Independent Non-Executive Director
(appointed 25.06.2018)

Jurgen Clemens Johannes Sandmann
Non-Independent Non-Executive Director
(appointed 25.06.2018)

Datin Seri Sunita Mei-Lin Rajakumar
Independent Non-Executive Director
(appointed 27.02.2019)

COMPANY SECRETARY

Katina Nurani binti Abd Rahim
Licensed Secretary
(L.S. No. 9652)

AUDIT COMMITTEE

CHAIRMAN

Boey Tak Kong

MEMBERS

Dato' Zainal Abidin bin Putih
Dato' Dr Rosini binti Alias
Tengku Nurul Azian binti Tengku Shahrman
Jurgen Clemens Johannes Sandmann
Datin Seri Sunita Mei-Lin Rajakumar

NOMINATING & REMUNERATION COMMITTEE

CHAIRMAN

Dato' Zainal Abidin bin Putih

MEMBERS

Boey Tak Kong
Saw Chooi Lee
Bernardus Hermannus Maria Kodden
Tengku Nurul Azian binti Tengku Shahrman
Datin Seri Sunita Mei-Lin Rajakumar

REGISTERED OFFICE

Level 5, Quill 9
112, Jalan Semangat
46300 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7953 2600
Fax : 03-7953 2700

REGISTRAR

BOARDROOM SHARE REGISTRARS SDN BHD (formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7841 8000
Fax : 03-7841 8151

WEBSITE

www.dutchlady.com.my

INVESTOR RELATIONS & ENQUIRIES

Jurian Duijvestijn
Finance Director
finance.dept@frieslandcampina.com

STOCK EXCHANGE LISTING

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

AUDITORS

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

PRINCIPAL BANKERS

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

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

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

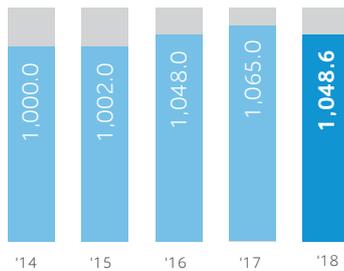
SOLICITORS

KHAW & PARTNERS
6th Floor
Menara Boustead
Jalan Raja Chulan
50200 Kuala Lumpur

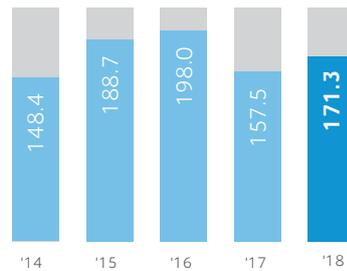


5-Year Financial Summary

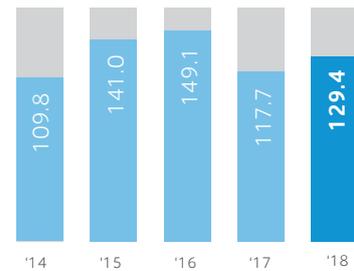
REVENUE (RM 'mln)



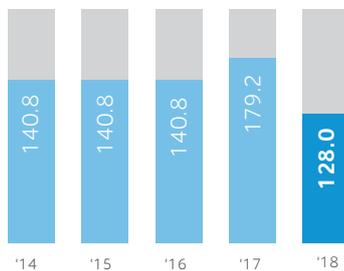
PROFIT BEFORE TAX (RM 'mln)



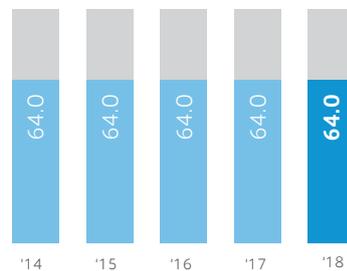
NET PROFIT FOR THE YEAR (RM 'mln)



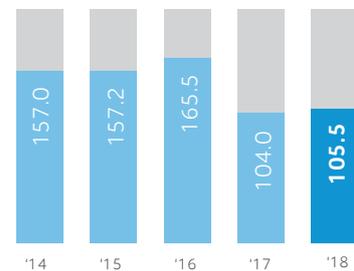
NET DIVIDEND PAID (RM 'mln)



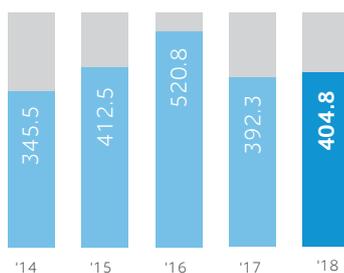
PAID-UP SHARE CAPITAL (RM 'mln)



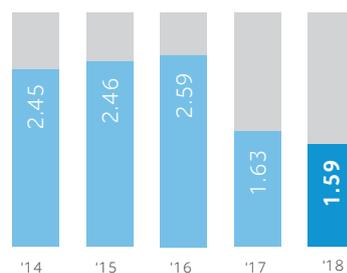
SHAREHOLDERS FUND (RM 'mln)



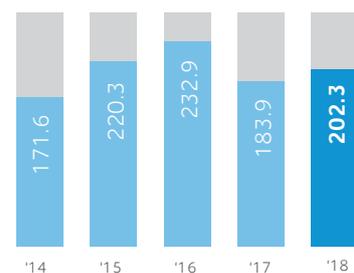
TOTAL ASSETS (RM 'mln)



NET ASSET BACKING PER SHARE (RM 'mln)



EARNINGS PER SHARE (sen)





Extra Value Extra Goodness for Your Little One



- * Highest DHA : DHA level per serving for DL 123 Plain & Honey compared to other formulated milk powder for children (1-3 years old) within similar price range as of July 2018 (Mass category; GUM1+).
- * 5xDHA : Compared to previous formulated milk powder for children formulation (Year 2009)
- * Extra Value : Dutch Lady 123 Plain compared with other brands of formulated milk powder for children (1-3 years) in the same price range as of July 2018.



+150%
Vitamin C ^v

+125%
Vitamin B12 ^v

5X
DHA ^v

+51%
Vitamin B6 ^v

+44.7%
Protein ^v

+70%
Vitamin D3 ^v

+94%
Vitamin K ^v

Board of Directors' Profiles

COMMITTEE MEMBER KEY



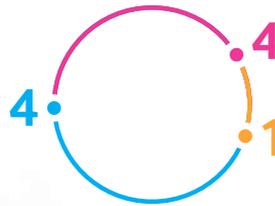
Audit Committee



Nominating & Remuneration Committee

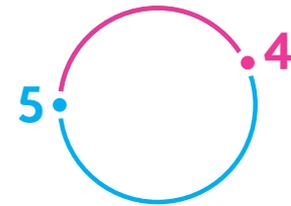
BOARD COMPOSITION

- Independent Non-Executive Directors
- Non-Independent Non-Executive Directors
- Executive Directors



GENDER

- Male
- Female



DATO' ZAINAL ABIDIN BIN PUTIH



**CHAIRMAN,
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR**

MALAYSIAN, MALE, AGE 73

Date of Appointment: 27 May 2009

Tenure of Directorship: 9 years

Board Meeting Attendance in 2018: 4/4

MEMBERSHIP OF BOARD COMMITTEE

- > Nominating & Remuneration Committee (Chairman)
- > Audit Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

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

Dato' Zainal also holds directorships in several other private limited companies.

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Fellow of the Institute of Chartered Accountants in England & Wales
- > Member of the Malaysian Institute of Certified Public Accountants
- > Member of the Malaysian Institute of Accountants

WORKING EXPERIENCE

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





TARANG GUPTA

EXECUTIVE DIRECTOR

INDIAN, MALE, AGE 42

Date of Appointment: 1 January 2018
Tenure of Directorship: 1 year
Board Meeting Attendance in 2018: 4/4

MEMBERSHIP OF BOARD COMMITTEE

None

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

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

WORKING EXPERIENCE

Prior to his present role, Mr Tarang was the Marketing Director for FrieslandCampina Nigeria, a position he held since 2014. He joined FrieslandCampina in 2010 as the International Marketing Director for Infant & Toddler Nutrition ("ITN") for FrieslandCampina AMEA, based in Singapore.

He has 17 years of commercial experience within the fast-moving consumer goods industry. This has helped him hone his expertise in portfolio building, global category building & strategy, commercial implementation and business turnaround. He previously held sales and marketing positions at Sara Lee International, Cadbury and Unilever.

BOEY TAK KONG

INDEPENDENT NON-EXECUTIVE DIRECTOR

MALAYSIAN, MALE, AGE 64

Date of Appointment: 12 November 2001
Tenure of Directorship: 17 years
Board Meeting Attendance in 2018: 4/4

MEMBERSHIP OF BOARD COMMITTEE

- > Audit Committee (Chairman)
- > Nominating & Remuneration Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

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

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

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Chartered Accountant of the Malaysian Institute of Accountants



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

WORKING EXPERIENCE

Mr Boey has over 25 years of broad senior management experience in financial management, internal audit, general management, corporate affairs and regional business development with 5 major listed groups with listings in Malaysia, Singapore, United Kingdom, Australia and New Zealand.

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



Board of Directors' Profiles

SAW CHOOI LEE

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR



MALAYSIAN, FEMALE, AGE 55

Date of Appointment: 1 January 2014

Tenure of Directorship: 5 years
Board Meeting Attendance in 2018: 4/4

MEMBERSHIP OF BOARD COMMITTEE

- › Nominating & Remuneration Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

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

WORKING EXPERIENCE

Ms Saw was formerly the Managing Director for Dutch Lady Milk Malaysia and Singapore from 2015 to 2017. She was re-designated as a Non-Independent Non-Executive Director with effect from January 2018.

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

She also serves as an Adjunct Professor at the Graduate Business School, University Kebangsaan Malaysia from 2019.

BERNARDUS HERMANNUS MARIA KODDEN



NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

DUTCH, MALE, AGE 45

Date of Appointment: 1 January 2018

Tenure of Directorship: 1 year
Board Meeting Attendance in 2018: 3/4

MEMBERSHIP OF BOARD COMMITTEE

- › Nominating & Remuneration Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

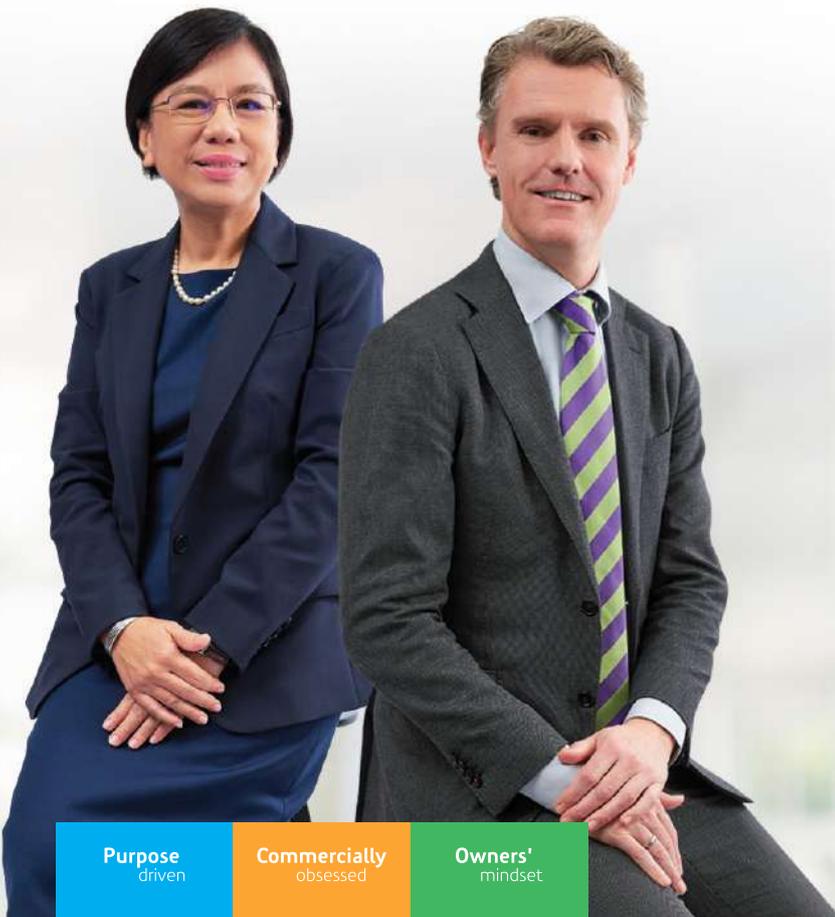
Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- › BA in International Economics/ Modern Japanese Studies University of Rotterdam in the Netherlands
- › MA International Relations, University of Gronigen in the Netherlands
- › MBA from University of Bradford/ NIMBAS University

WORKING EXPERIENCE

Mr Kodden assumed the position of President of Business Group, Specialised Nutrition for Royal FrieslandCampina N.V. on 1 January 2018. Prior to that, he was the Managing Director for FrieslandCampina, Branded Netherlands. He has also held various director and managerial positions for Infant & Toddler Nutrition, Brand and Innovation and Sales within Royal Friesland Foods and later FrieslandCampina N.V. He has extensive experience in the areas of sales, marketing, general management and crisis management.





DATO' DR ROSINI BINTI ALIAS



**NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR**

MALYSIAN, FEMALE, AGE 61

Date of Appointment: 16 March 2018
Tenure of Directorship: 1 year
Board Meeting Attendance in 2018: 3/3

MEMBERSHIP OF BOARD COMMITTEE

- > Audit Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Doctor of Veterinary Medicine, DVM, Universiti Pertanian Malaysia

WORKING EXPERIENCE

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

TENGGU NURUL AZIAN BINTI TENGGU SHAHRIMAN



INDEPENDENT NON-EXECUTIVE DIRECTOR

MALYSIAN, FEMALE, AGE 56

Date of Appointment: 25 June 2018
Tenure of Directorship: 9 months
Board Meeting Attendance in 2018: 2/2

MEMBERSHIP OF BOARD COMMITTEE

- > Audit Committee
- > Nominating & Remuneration Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Sunway REIT Management Sdn Bhd (management company of Sunway REIT)

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Advocate and Solicitor of the High Court of Malaya
- > Barrister-at-Law - The Honourable Society of Inner Temple
- > School of Oriental & African Studies, London University, LLB (Hons)

WORKING EXPERIENCE

Tengku Nurul Azian is currently the Executive Vice President & Partner of PEMANDU Associates Sdn Bhd, a management consulting firm focused on public sector transformation and business turnaround with global experience.

She started her career in 1988 as an Advocate and Solicitor with Messrs.

Shook Lin & Bok before pursuing a career in investment banking in 1992. She has over 18 years of broad experience in investment banking and corporate finance, the last position held as Head of Corporate Finance in RHB Investment Bank Berhad, a member of RHB Banking Group, the 4th largest fully integrated financial services group in Malaysia.

In 2010, she was appointed as the Director of Education and Human Capital Development in the Performance Management and Delivery Unit (PEMANDU) and held this position until 2017.

She is also a Board member of Global School Leaders, Malaysia, an organisation involved in providing school leadership programs in 24 public schools and sits on the Board of Governors of her alma mater, Convent Bukit Nanas.



Board of Directors' Profiles

DATIN SERI SUNITA MEI-LIN RAJAKUMAR



INDEPENDENT NON-EXECUTIVE DIRECTOR

MALYSIAN, FEMALE, AGE 50

Date of Appointment: 27 February 2019

Tenure of Directorship: 1 month

Board Meeting Attendance in 2018: N/A

MEMBERSHIP OF BOARD COMMITTEE

- > Audit Committee
- > Nominating & Remuneration Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

- > Caring Pharmacy Group Berhad
- > Hai-O Enterprise Berhad
- > MCIS Insurance Berhad
- > Zurich General Insurance Malaysia Berhad

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > LLB (Honours), Bristol University in 1990
- > Qualified as Member of the Institute of Chartered Accountants of England & Wales in 1994

WORKING EXPERIENCE

Datin Seri Sunita's career began at the Audit and Insolvency Divisions of Ernst & Young in London. Thereafter she was attached to the Corporate Finance Department of RHB Investment Bank Berhad in Kuala Lumpur before becoming a consultant at MIMOS Berhad. She was then invited to manage Encipta Ltd, a foreign technology venture capital fund under MIMOS Berhad. She has appointed to the board of trustees of 4 charities and is involved in a spectrum of community-based activities. In addition, she is the Festival Director of the Kuala Lumpur International Arts Festival.

JURGEN CLEMENS JOHANNES SANDMANN



NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

DUTCH, MALE, AGE 43

Date of Appointment: 25 June 2018

Tenure of Directorship: 9 months

Board Meeting Attendance in 2018: 2/2

MEMBERSHIP OF BOARD COMMITTEE

- > Audit Committee

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

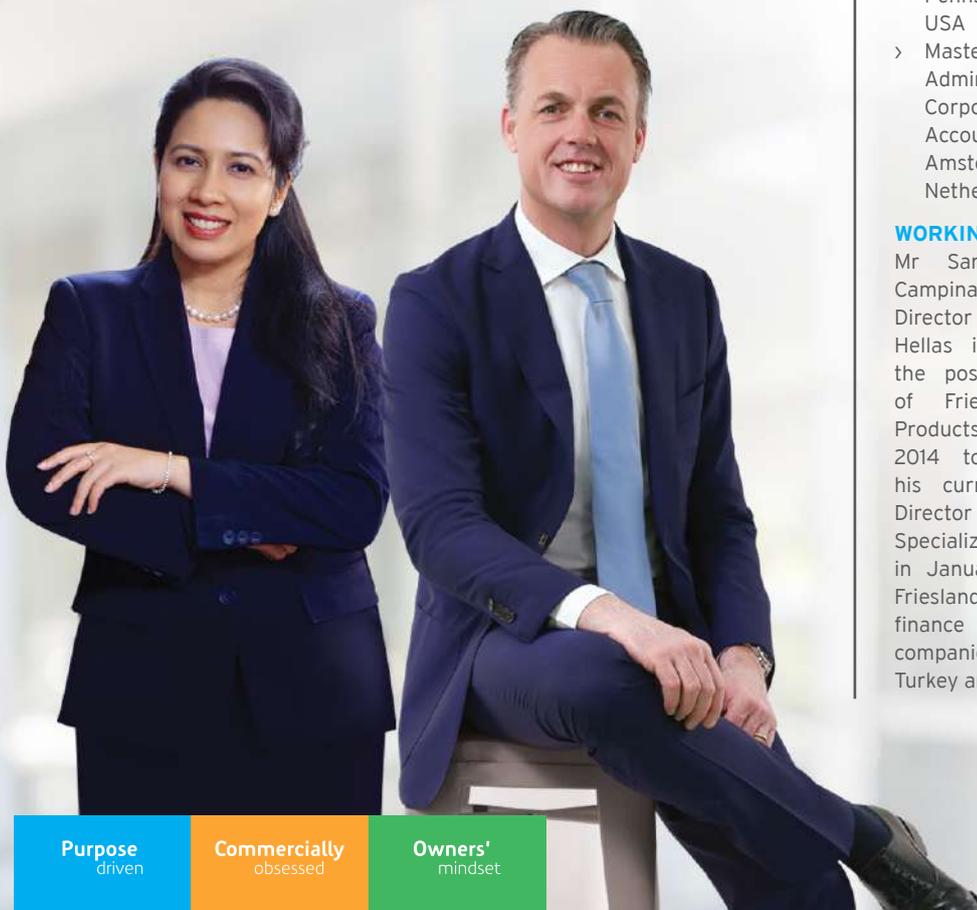
Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > IMD Business School, Lausanne, Switzerland
- > High Performance Leadership Program, Luzern, Switzerland
- > Management Acceleration Program, Insead Business School, Paris, France
- > Windhover Program for Pharmaceutical and Biotech Executive, Wharton, University of Pennsylvania, Philadelphia (PA), USA
- > Master's in Business Administration; specialised in Corporate Finance Management Accounting, University of Amsterdam, Amsterdam, the Netherlands

WORKING EXPERIENCE

Mr Sandmann joined FrieslandCampina in 2011 as Finance Director of FrieslandCampina Hellas in Athens. He then held the position of Finance Director of FrieslandCampina, Consumer Products EMEA, Netherlands from 2014 to 2017 before assuming his current position as Finance Director of FrieslandCampina, Specialized Nutrition, Netherlands in January 2018. Prior to joining FrieslandCampina, he held various finance positions in various companies in the Netherlands, USA, Turkey and Russia.





KATINA NURANI BINTI ABD RAHIM

COMPANY SECRETARY

MALYSIAN, FEMALE, AGE 44

Date of Appointment: 6 April 2018

DIRECTORSHIP IN PUBLIC LISTED COMPANIES

Nil

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- › LLB (Honours), University of Nottingham, United Kingdom
- › Bar Vocational Course, University of Wales, Cardiff, United Kingdom
- › Barrister-at-Law of England & Wales (Lincoln's Inn)
- › Advocate & Solicitor of the High Court of Malaya
- › Licensed Company Secretary

WORKING EXPERIENCE

Katina was admitted as an Advocate & Solicitor of the High Court of Malaya in 1999 after which she practiced in several law firms in Kuala Lumpur before joining the Usaha Tegas Group as Legal Counsel in 2005. Subsequently, she was attached to Lafarge Malaysia Berhad from March 2011 to March 2018 where she was the Head Counsel for Cement and Drymix businesses and the Company Secretary. She then joined the Company on 15 March 2018 as the Legal & Company Secretarial head. She is a licensed company secretary under Section 20(G) of the Companies Commission of Malaysia Act 2001.



Save as disclosed, the Directors and the Company Secretary do not have any family relationship with any Director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V., do not have any conflict of interest with the Company, has not been convicted of any offence within the past five years, has not been imposed any penalty by the relevant regulatory bodies during the financial year 2018, and do not hold any shares in the Company.

Management Team Profiles

TARANG GUPTA

Managing Director



MALE, INDIAN

AGE 42

Date of Appointment: January 2018

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

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

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

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

His 17 years of commercial experience in the fast-moving consumer goods industry has helped him hone his expertise in portfolio building, global category building & strategy, commercial implementation and business turnaround. He has previously held sales and marketing positions at Sara Lee International, Cadbury and Unilever.

Purpose driven	Commercially obsessed	Owners' mindset
I will strategically build and drive DLMI to Nourish our consumers, employees and shareholders	I will focus speed and data based decision making to add value to our consumers and stay ahead of competition	I will aggressively focus on core priorities and stop all non value added tasks and costs

MALE, DUTCH

AGE 43

Date of Appointment: September 2018

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Certified Practicing Accountant (CPA), CPA Australia
- > Business Economics (Master of Science), Erasmus University of Rotterdam, Rotterdam, the Netherlands

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

Prior to his current role as Finance Director, Jurian was the Commercial Finance Director for Business Group Specialized Nutrition based in Singapore, a role which he assumed in August 2016. Prior to that, he was the Corporate Controller Global Procurement for FrieslandCampina Netherlands from January 2015 to July 2016.

He has over 19 years' experience in various finance and business development positions in various multi-national companies including FrieslandCampina, H.J. Heinz, KPMG Transaction Services, Geodis Wilson Asia Pacific and TNT.

Purpose driven	Commercially obsessed	Owners' mindset
I will lead and support people's growth, initiatives to provide better nutrition to local consumers, driving long term value for our consumers and our shareholders	I will act with speed, be agile, be in the market and ensure that we make fact-based decisions, putting consumer and customer at the center of what we do	I will prioritize my time spend on Big Rocks and will treat every ringgit spent as if it was my own, ensuring we don't waste money which we could invest supporting top-line growth

JURIAN DUIJVESTIJN

Finance Director





FEMALE, MALAYSIAN
AGE 40

Date of Appointment: March 2016

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Master’s Degree in Business Systems, Monash University, Australia
- > Bachelor’s Degree in Marketing from Monash University, Australia

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

Prior to joining the Company, Ashlee was the Personal Care Director for Unilever Malaysia, responsible for hair care, personal wash, deodorants and skin care divisions. She began her career as a management trainee at Unilever and held various marketing managerial roles in Malaysia and Singapore during her 13 years with them, where she was responsible for their branding, marketing campaigns, communications and media strategies. This includes heading the marketing department for their ice cream business.

Purpose driven	Commercially obsessed	Owners' mindset
I will strategically drive campaigns and innovations that are inline with our purpose to provide the right nutrition for children	I will put the consumer first and act with speed. Be ahead of competition	I will focus on driving efficiency in our spend and focus on the BIG bets

ASHLEE NG

Marketing Director. Specialised Nutrition



RAMJEET KAUR VIRIK

Marketing Director, Consumer Dairy



FEMALE, MALAYSIAN
AGE 42

Date of Appointment: January 2018

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

Bachelor of Science’s Degree in Economics, Banking and Finance, London School of Economics, United Kingdom

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

Ramjeet has been a part of FrieslandCampina for the last 7 years. Prior to her current appointment, Ramjeet was the International Marketing Manager at FrieslandCampina Asia based in Singapore, and Marketing Manager at PT Frisian Flag Indonesia.

She has more than 18 years’ experience in various commercial roles, namely in marketing, sales and shopper functions. Her career started in other leading fast-moving consumer goods organisations such as British American Tobacco (M) Sdn Bhd and Heineken Malaysia Berhad (previously known as Guinness Anchor Berhad).

Purpose driven	Commercially obsessed	Owners' mindset
I will nourish Malaysians minds & body with the Goodness of Milk	I will walk the market and talk to consumers to be able to put customers and consumer first	I will say NO to ineffective A&P Spends and be practical with being brave to say NO

Management Team Profiles

KATRINA NEO

Sales Director



FEMALE, MALAYSIAN

AGE 43

Date of Appointment: December 2015

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

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

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

Prior to her current role, Katrina was the Company's National Sales Manager - Modern Trade, a position she assumed in August 2012. She was previously the General Manager, Sales - Circulation for the New Straits Time Press Sdn Bhd and has held various sales managerial positions with various fast-moving consumer goods companies based in Malaysia.

Purpose driven	Commercially obsessed	Owners' mindset
I will focus on winning in the market and achieve most optimal distribution and visibility in trade	I will ensure continuous strengthening in sales fundamentals and leverage on shopper's insights to win in the market	I will commit to increase speed to market and optimize trade spend with sales capabilities improvement

MALE, DUTCH

AGE 43

Date of Appointment: October 2018

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Dairy and Process Technology at the HAS in Den Bosch
- > Economy of Agriculture & Environment, Wageningen University, The Netherlands
- > Business Administration, Fulton Montgomery Community College, Johnstown, New York State (USA)

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS

Nil

WORKING EXPERIENCE

Before assuming his current role, Sander was the Performance Excellence Manager with Frisian Flag Indonesia. Prior to that, he was the Plant Manager and later the Site Manager at Alaska Milk Corporation in the Philippines.

He started his career in 2000 with Calvé Delft, a part of Unilever N.V. and joined FrieslandCampina in 2001 as a logistical project employee. He has over 18 years of experience in operations, continuous improvement, project management and supply chain and has held various management positions in the Netherlands, France, USA, Philippines and Indonesia.

Purpose driven	Commercially obsessed	Owners' mindset
I will role model the right behavior to drive safety on the shop floor and ensure the food safety & high quality of our nutritious products produced in a sustainable way	I will bring the outside in perspective into Supply Chain by always putting the customer and consumers at heart	I will continue my pragmatic approach and focus on the right projects and value added activities only aligned with DLMI's priorities

SANDER JANMAAT

Operations Director





MALE, MALAYSIAN
AGE 51

Date of Appointment: September 2012

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

- > Bachelor’s Degree in Commerce, Delhi Commercial University, India
- > Bachelor’s Science Degree in Business Administration (with a double major in Human Resource Management), Hawaii Pacific University, Honolulu, Hawaii

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS
Nil

WORKING EXPERIENCE

Prior to joining the Company, Mahadevan was the Human Resource Manager of Danone Dumex Sdn Bhd. He has also held a variety of human resource positions in local companies of various industries.

Purpose driven	Commercially obsessed	Owners' mindset
I will improve Core HR Fundamentals on labor compliance, local laws, policies and processes to support the business	I will inculcate common functional learning & development to continuously nourish our talent pipeline and reduce attrition	I will instill Culture & Engagement through our Fast Forward Journey to foster Win Win mindset & behaviors

MAHADEVAN SIVARAMAKRISHNAN
Human Resource Director



MUHAMMAD ABDUL HADI BIN ABDULLAH
Corporate Affairs Director



MALE, MALAYSIAN
AGE 51

Date of Appointment: September 2018

ACADEMIC/PROFESSIONAL QUALIFICATION(S)

Bachelor of Communications (Honours), Universiti Sains Malaysia, Malaysia

PRESENT DIRECTORSHIP IN OTHER PUBLIC COMPANIES AND LISTED ISSUERS
Nil

WORKING EXPERIENCE

Prior to his current role, Hadi was the Manager, Government & Corporate Affairs with JT International Berhad from 2001 to 2018.

Hadi has over 27 years’ of experience in various roles of corporate communications, public relations, regulatory affairs, corporate development and government & external relations. He previously held positions at Communication Resource Group Public Relations Sdn Bhd, Kuala Lumpur Sentral Sdn Bhd (a member of the Malaysian Resources Corporation Berhad Group of Companies), Malaysian Resources Corporation Berhad and Dialog Group Berhad.

Purpose driven	Commercially obsessed	Owners' mindset
I will strategically position DLMI as the preferred & respected partner amongst our stakeholders to enable DLMI to play its role in nourishing the nation	I will shape the operating environment to ensure that our business mission & performance goal are achieved with minimal commercial risk and maximum competitive advantage	I will continuously nurture and inspire winning mindset & attitude within our team and be prudent in spending

Save as disclosed, the Management Team do not have any family relationship with any Director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V., do not have any conflict of interest with the Company, has not been convicted of any offence within the past five years, has not been imposed any penalty by the relevant regulatory bodies during the financial year 2018, and do not hold any shares in the Company.

Friso
GOLD®

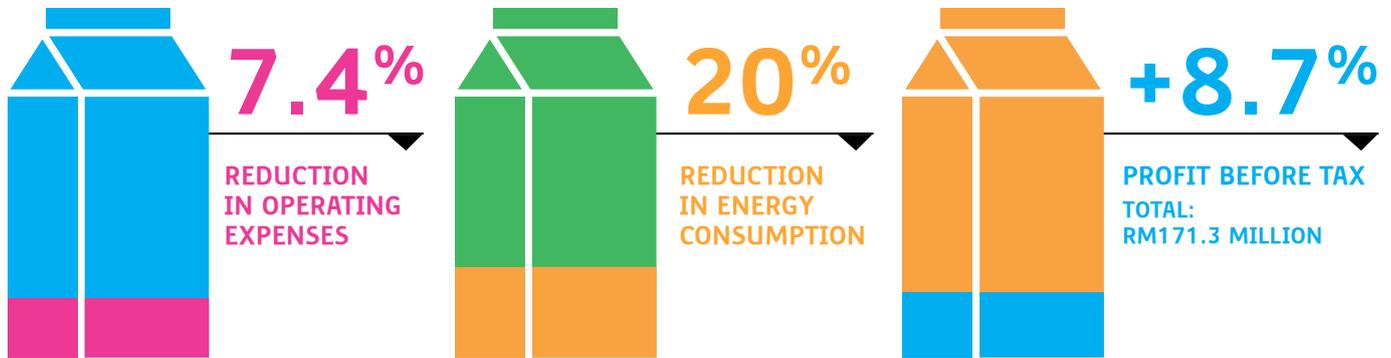
Natural Nutrient, Easy to Digest.

Making milk more digestible for young children, FrisoGold uses **LocNutri®** production technology. This technology preserves the milk's protein as close as possible to its natural structure, leading to easy digestion. FrisoGold is also fortified with important nutrients to strengthen the immunity of active growing bodies.



Learn how **LocNutri®** Technology preserves milk's natural nutrient for easy digestion, at frisogold.com.my





CHAIRMAN'S STATEMENT

BUSINESS ENVIRONMENT

Our financial year ended 31 December 2018, closed the page on a challenging but rewarding year for us at Dutch Lady Milk Industries Berhad (Dutch Lady Malaysia). It was a year of positives that led us to achieve our goals of nourishing a Nation, and challenges that we had to face and overcome to emerge a stronger and more dynamic team. The Company also went through some restructuring, including changes to the Board and Management team.

2018 was certainly a volatile year, with socio-political and economic headwinds and tailwinds, increased competition, global milk price fluctuations and the waning and rising of the local currency. These were some of the factors that impacted the performance of the Company. Nevertheless, we remain committed to ensuring that our products are affordable and readily available to our consumers.

STRATEGIC INITIATIVES

In spite of the challenges, Dutch Lady Malaysia was able to record satisfactory progress, posting an 8.7% higher profit before tax to RM171.3 million versus 2017's RM157.5 million. This was achieved through ongoing efforts to drive efficiencies, which have been able to cushion the negative impact of the headwinds mentioned above. This is evidenced



Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Audited Financial Statements for the financial year ended 31 December 2018.

DATO' ZAINAL ABIDIN BIN PUTIH

Chairman



ENT

by a reduction in operating expenses of 7.4% despite a rise in marketing and distribution expenses.

Other positive drivers include the adoption of energy-saving practices that have helped reduce energy consumption by 20%, as well as adapting to changes in market trends by innovating our range of products portfolio. An example of this was the investment into a UHT milk filler and processing line in October 2018, which helped to increase output and reduce costs.

CHAIRMAN'S STATEMENT

MOVING FORWARD

While consensus indicates a slight reduction in Malaysia's GDP in 2019 and uncertainties still remain both locally and globally with events such as the US-China trade war, we at Dutch Lady Malaysia remain optimistic in our performance for the upcoming financial year.

For a start, we will be able to reap a full-year contribution of our latest production line, which only began full operations in October 2018.

Further, as part of our 'Grass-to-Glass' initiative, we continue to strengthen our cooperation with relevant Government agencies to grow our parent company's Dairy Development Programme (DDP) which aims to increase sourcing of local milk. Dutch Lady Malaysia takes pride in being at the forefront of helping Malaysia develop a sustainable dairy industry through the DDP. Through this programme, we have bought local fresh milk from Malaysian farmers to produce 85 million packs of milk over the last five years to cater to the increasing demands of Malaysians.

As we remain committed to our purpose of nourishing a Nation, the Company continues to explore product innovations to tap into market trends and maintain affordability so as to increase the country's milk consumption.

SUSTAINABILITY COMMITMENT

In 2018, our marketing efforts were geared towards product innovation and growing our e-commerce business. We relaunched our Dutch Lady growing up milk (GUM) with highest DHA and introduced limited edition ready-to-drink Chocolate Caramel and Emoosjiku to encourage milk consumption amongst the younger generation as well as adults. These efforts have led to volume growth, in line with our commitment to deliver quality and nutritious dairy products to Malaysian consumers.

We see more opportunities to grow our product consumption volume via a growing middle class and a rising awareness of the benefits of milk and milk-based products. To that end, the Company continues to explore product innovations to tap into such market trends as well as to maintain affordability to increase milk consumption further. We are also exploring tapping into other market segments to help us fulfil our purpose of *Nourishing Malaysians with trusted dairy nutrition*.





INDUSTRY AWARDS

I am pleased to inform you that the Company was awarded the National Energy & Green Technology Award 2018 (NEGTA Award 2018) by the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) for an energy management project which we embarked upon. The project contributed significantly to the field of sustainable energy, development and research which is in line with the country's aspiration to spur green technology as a new area for economic growth.

The Company was also awarded the Gold Winner during the Putra Brand Awards 2018 thus recognising the Company as the No. 1 milk brand for Malaysian consumers. We have won the People's Choice Award for the dairy beverage category for the third consecutive year.

Further, the Company won two A&M 2018 Marketing Excellence Awards for Excellence in Brand Awareness and Excellence in Marketing Communications/Public Relations for our Frisomum Gold: My Pregnancy, My Way campaign. At the Graduate's Choice Award 2018, the Company was voted one of the Top 3 companies by undergraduates as a great place to work and grow in their careers.



DIVIDENDS

During the financial year ended 31 December 2018, a total of RM128 million was paid out as standard and special interim dividends to shareholders. This represents 98.88% distribution of the Company's net profit attributable to shareholders.

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

BOARD AND MANAGEMENT CHANGES

In 2018, we saw some changes to the Board composition. I am pleased to extend a warm welcome to Mr Jurgen Clemens Johannes Sandmann and Tengku Nurul Azian Binti Tengku Shariman as new members to the Board. At the same time, Mr Boey Tak Kong has informed the Board that he will resign at the conclusion of the upcoming AGM. He has been a very valued Board member for more than 17 years and I wish to record our utmost gratitude and thanks for his contributions. In early 2019, we welcomed Datin Seri Sunita Mei-Lin Rajakumar to Dutch Lady Malaysia as our newest member of the Board.

We also saw several changes to our management team in 2018. We bid farewell to our Finance Director, Mirjam Van Thiel and Operations Director, Rogier van der Heijden as they embark on their next journey in their careers at FrieslandCampina and we warmly welcome Jurian Duijvestijn, Sander Janmaat and Muhamad Abdul Hadi Abdullah as Finance Director, Operations Director and Corporate Affairs Director respectively. Hence, I wish to record our thanks and appreciation to Ms Mirjam and Mr Rogier for their contribution to Dutch Lady Malaysia over the last 3 years.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to convey our sincere thanks to the authorities for their continued guidance, the shareholders for their continued support and our management, employees, and business partners of the Company for their outstanding dedication and commitment in 2018 despite the difficult challenges. I wish them greater success in the years ahead. More importantly, I wish to thank our consumers for their continued trust and loyalty to the Dutch Lady brand, as we continue on our mission to nourish Malaysians with trusted dairy nutrition, to help them move forward in life.

DATU' ZAINAL ABIDIN BIN PUTIH

Chairman

MANAGEMENT DISCUSSION & ANALYSIS



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



Purpose driven

Commercially obsessed

Owners' mindset



OPERATION INSIGHTS

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

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

Our Products & Brands

Since 1963, Dutch Lady Malaysia has been spreading the goodness of milk through its products under the brands Dutch Lady and Friso, focusing on the Ready-to-drink category and powdered milk for children and family. Our purpose is to 'Nourish Malaysians to help them move forward in life'.

Strategic Direction

FrieslandCampina has in place a strategic direction for next 5 years to drive sustainable growth and value creation.

From 2018, RFC has implemented the Fast Forward program to support future growth and to further unleash the overall company's potential. Under this program, FrieslandCampina focuses on three key areas:

- Purpose Driven - to continue to strengthen our purpose of 'Nourishing by Nature'
- Commercially obsessed : to offer best value to our consumers and customers and lead the dairy market
- Owners' mind-set : operating like entrepreneurs in generating value and being prudent on cost.

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

The company does not separate their business from that of their Corporate Social Responsibility (CSR). Which is why in Dutch Lady Malaysia we are helping Malaysians move forward in life - via our Dairy Development Program (DDP) to improve quality and quantity of milk of local Malaysian farmers and also providing high quality and nutritious milk products for our consumers to support their growth, development and general well-being.



MANAGEMENT DISCUSSION & ANALYSIS

In 2018 key focus areas for the Company were as follows:

- Invest in the future to strengthen volume developments: Continue to provide quality and nutritious products for Malaysians. The dairy penetration in Malaysia is relatively lower compared to other developed markets, and thus the company has focused on driving penetration with affordability and availability as the key levers.
- “Execute to win”: Understand shoppers’ habit change and be available to meet their demands and adapt its portfolio to the changing consumer habits driven by macro-economic drivers.
- Strengthen our operational efficiency and effectiveness.
- Manage local regulatory changes, such as GST-SST transition.
- Enhance capability in digital, e-commerce and data analytics.

BUSINESS STRUCTURE

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

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

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





MARKETING INITIATIVES

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

<p>QUARTER 1</p> <ul style="list-style-type: none"> • Breakfast Campaign - March April (Strong Start with Protein from Milk) • Friso Gold Tour to Holland campaign 	<p>QUARTER 2</p> <ul style="list-style-type: none"> • Frisomum Gold Dual Care + Launch • World Milk Day launch with MOE (launched on 31st May 2018)
<p>QUARTER 3</p> <ul style="list-style-type: none"> • Relaunch of Dutch Lady Growing Up Milk with highest level of DHA • Friso Gold LocNutri 2.0 Campaign • Friso Gold National Consumer Promo & Bundle pack launch • Jr NBA (launched in Apr '18) 	<p>QUARTER 4</p> <ul style="list-style-type: none"> • Dutch Lady Growing Up Milk shoppers campaign, 'Smart Container' • Ramadan 2018 - May/June (Berkat Sahur dengan Susu Dutch Lady)

For the third year in a row, the Dutch Lady brand emerged as the Gold Winner of the 2018 Putra Brands People's Choice Award in the dairy beverages category. In addition, its Friso brand won The MARKies Best Idea Mobile (Bronze) for its Friso Gold 'Tour to Holland' campaign.

The company also clinched two A+M Marketing Excellence Awards for its Frisomum campaign; winning the Gold Award for Excellence in brand awareness and Silver Award for Excellence in Marketing Communications and a PR milestone achievement for the Company.

In 2018, Dutch Lady Malaysia introduced 16 products under the 'Healthier Choice Logo' (HCL) initiative by the Ministry of Health. This saw the Company renovating its recipes, and increasing calcium levels in its products to offer consumers healthier dairy beverages. The implementation of HCL gives Dutch Lady's consumers the opportunity to make more informed food choices to promote healthy eating.

Dutch Lady Malaysia grew over 200% in E-commerce channel in 2018.

Productivity Initiatives

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

- Improve speed to market and reach to consumers with lower cost to serve through optimisation of our current route to market and consolidation of distributors nationwide.
- Drive cost savings and lower waste under the FORCE program (Focus On Reducing Cost Everywhere).
- World Class Operations Management program within the factory focussing on operational excellence and cost reductions by improving utilisation rate of the production lines and reducing material and energy consumption.
- Investments in upgrade of safety and quality conditions and overhaul of part of the production lines. The company also invested in an additional Ultra-High-Temperature (UHT) 1-liter filling line to support the future growth.



MANAGEMENT DISCUSSION & ANALYSIS

OPERATING ACTIVITIES REVIEW

Improving Consumer Sentiments

In general, consumer sentiment continued to improve in 2018, but affordability remained critical. Furthermore, election results has unleashed series of major policy changes impacting the industry. Such as abolishment of GST in May 2018, introduction of SST in September 2018. The company has stayed agile in adapting to these changes and also keeping in mind the affordability of our consumers.

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

Global Dairy Conditions

In the first half of 2018, most commodity prices reached relatively low levels, mainly driven by strong global supply growth. The gap between protein and fat prices remained high during this period, with SMP prices reaching historically low levels. In the second half of 2018, global milk supply growth started to slow, strongly driven by the hot and dry summer in the EU and tight farm margins in the US. A strong New Zealand season could not prevent this slowdown. As a result, commodity prices reached higher levels in the second half of the year. Meanwhile, intervention stocks were sold at a fast pace, which was the start of the SMP price recovery. Due to higher SMP prices, butter prices showed a reversed trend in H2, narrowing the gap between protein and fat prices. Lactose prices also reached higher levels in H2, driven by significant stock reductions in the EU and US. AMF prices were mainly dependent on New Zealand developments, which is by far the biggest exporter of AMF on the world market. Due to strong New Zealand milk supply growth in the second half of 2018, AMF prices have been relatively low.

PROFIT BEFORE TAX
TOTAL: RM171.3 MILLION

+8.76%

COMPANY SOLVENCY

28%

2017: 31.4%

TOTAL INTERIM DIVIDENDS

RM128.0

2017: RM140.8

FINANCIAL INSIGHTS

Review of Company Revenue

In 2018, the Company realized a 3% volume growth and 2% business decline in revenue, backed by pricing strategy to make milk affordable and drive penetration for long term growth by increasing consumption of milk. The volume increase in the Company's revenue was driven by the continuing focus on three main categories - Dutch Lady Growing Up Milk Products, Friso Growing Up Milk Products and Dutch Lady flavored and plain liquid milk.

Review of Financial Highlights

Profit before tax is at an index 109 versus previous year; RM157.5 million in 2017 to RM171.3 million in 2018. The profit increase was mainly driven by lower input cost following a decrease in Dairy costs, foreign exchange with strengthening of Ringgit and operational efficiencies in the second half of 2018.

During the year 2018, the global dairy prices especially for milk fat solids saw an increase driven by improvement in global demand. A substantial amount of the Company's dairy raw materials was transacted in US Dollar, and the weakening of the Ringgit amplified the pressure on profitability.



Cash and Bank Balances

As at 31 December 2018, the Company's cash and bank balances amounted to RM32.1 million compared to RM61.3 million in the last financial year, driven by higher capital expenditure in factory to facilitate for future growth.

The excess cash, other than for working capital purposes, was transferred to short term fixed deposits. The deposits were placed with licensed financial institutions, bearing interest at an average rate of 2.31% during the financial year of 2018.

The Company drew down RM15 million of banking facilities to manage seasonal fluctuations. Banking facilities were placed at internal cash pool of FrieslandCampina at significantly lower average rates than external local banks.

Overall the solvency of the company is healthy at 28% and end of 2018 (Equity over Assets minus cash).

Dividends

For the financial year in review, the Company paid to its shareholders a total of RM128.0 million in interim dividends consisting of RM64 million standard and RM64 million of special dividends.

Currency Fluctuations

Throughout 2018, dairy raw material prices fluctuated together with the forex movements. To manage this accordingly, the Company has in place hedging policies.

FINANCIAL RISK MANAGEMENT

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

Financial Management and Treasury Policy

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

Credit Risk	<p>The Company has adopted a policy of only dealing with creditworthy customers, based on careful evaluation of the customers' financial condition and credit history, as a means of mitigating the risk of financial loss from defaults of payments. The Company also maintains a large number of customers so as not to limit high credit concentration in a single customer.</p> <p>The Company's credit risk is also mitigated by an arrangement made with a licensed financial institution which enables selected trade customers to pay goods invoiced through a corporate purchasing card issued by the financial institution. The Company has also set in place a credit monitoring policy and procedure in respect of its other trade customers. The Company will continue to optimise its number of customers under this arrangement to minimise credit risk.</p>
Liquidity Risk	<p>The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due. The Company's exposure to liquidity risk arises principally from both trade and other payables.</p>

MANAGEMENT DISCUSSION & ANALYSIS

Market Risk	Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Company's financial position or cash flows. During the financial year 2018 under review, the dairy raw materials prices decreased compared to the previous financial year.
Currency Risk	<p>The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than functional currency of the Company. Primarily, the currencies giving rise to this risk are US Dollar and Euro that contributes to 70% of the total exposure.</p> <p>During the financial year 2018 under review, foreign currency exchange rates were favourable compared to the previous financial year, which were managed leveraging companies hedging procedures.</p>
Interest Rate Risk	The Company is not exposed to a risk of change in cash flow due to changes in interest rates as the Company has no borrowing at the end of financial year 2018, except RM15 million bank overdraft. Overdraft was placed at internal cash pool of FrieslandCampina. The Company places short term deposits with licensed financial institutions which are not significantly exposed to risk of changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.



CAPITAL MANAGEMENT

Capital Equity & Structure

The Company's paid and issue capital consists of 64,000,000 ordinary shares of RM1.00 each, and a current market price at RM64.30 per share bringing with it a market capitalization value of RM4.11 billion as at 27 February 2019.

Charge on Assets

As at 31 December 2018, the Company has not pledged any assets to any financial institutions.

Contingent Liabilities

As at 31 December 2018, the Company has no material contingent liabilities.

Operating Leases

As at 31 December 2018, the Company has operating leases for its equipment and premises. The details of operating leases are disclosed in note 21 to the audited financial statements for the financial year ended 2018.



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Corporate Governance Overview Statement



The Board of Directors ("**Board**") of Dutch Lady Milk Industries Berhad ("**Company**") believes that a sound corporate governance structure is vital to ensure sustainability as well as progressive business growth. Hence, the Board continues to be fully committed to maintaining a high standard of corporate governance within the Company through its support and application of the principles and practices as set out in the Malaysian Code on Corporate Governance 2017 ("**Code**"). The Board shall also continue to evaluate its governance practices in response to evolving best practices and changing requirements.



The Board is pleased to report on governance compliance activities adopted in line with the Principles set out in the Code that were applied throughout the financial year ended 31 December 2018 ("**FY2018**") in this Corporate Governance Overview Statement ("**CG Overview Statement**"). The Principles have, in all material respects, been applied to achieve their intended Outcomes as set out in this Statement, to the extent that they were found to be suitable and appropriate to the Company's circumstances. Where appropriate, this CG Overview Statement also seeks to disclose all information that is required pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Listing Requirements**").

The application of the Practices set out in the Code throughout FY2018 will also be disclosed to Bursa Malaysia Securities Berhad in a prescribed format ("**CG Report**") which will be published together with the Company's Annual Report. The CG Report may be downloaded from the Company's corporate website (www.dutchlady.com.my).

PRINCIPLE A

BOARD LEADERSHIP AND EFFECTIVENESS

BOARD'S RESPONSIBILITIES (Practice 1.1)

The Board is collectively responsible to the Company's Shareholders for the direction and oversight of the Company to ensure its long-term success. The Board met regularly throughout the year to approve the strategic objectives of the Company, to lead the Company within a framework of effective controls which enable risk to be assessed and managed, and to ensure that sufficient resources are available to meet the objectives set.

The Board reserves full decision-making powers, after taking into consideration the policies, procedures and guidelines of the Royal FrieslandCampina N.V. ("RFC") Group, on the following matters:

- Conflict of interest relating to a substantial shareholder or a Director or person connected to such substantial shareholder or Director;
- Material acquisitions and disposition of assets not in the ordinary course of business;
- Investment in capital projects;
- Authority levels;
- Treasury policies;
- Risk management policies; and
- Key human resource issues.

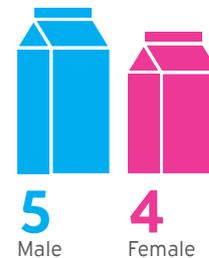
BOARD ROLES AND THEIR RESPONSIBILITIES

Chairman and Managing Director (Practice 1.2 and 1.3)

The roles of the Chairman and the Managing Director ("MD") are separately held and the division of their responsibilities is clearly defined. The Chairman is an independent director who has never assumed an executive position in the Company. The MD is an appointee of the major shareholder and heads the Company's management team.

The Chairman is responsible for the operation and leadership of the Board. The Chairman ensures that the Board is effective and that the Company is guided by good corporate governance practices. He facilitates robust dialogue during Board meetings and draws out diverse perspective from the Board members. He also ensures that there is a good balance between the time allocated to governance matters and discussions on business performance and strategies at board meetings. The MD is responsible for leading and managing the Company's business within a set of authorities delegated by the Board. He is also responsible for the implementation of Board strategy and policy.

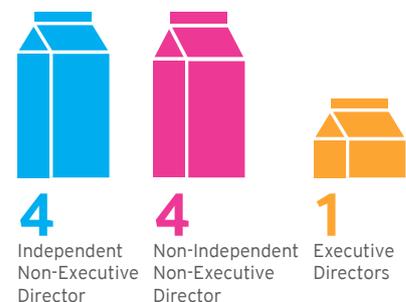
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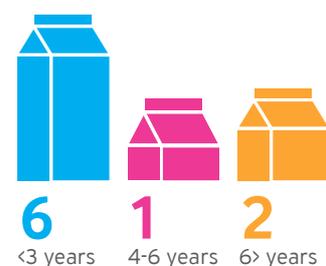
AGE



TYPE OF DIRECTORSHIP



TENURE



Corporate Governance

Overview Statement

Independent Directors

The primary responsibility of Independent Non-Executive Directors is to protect and safeguard the interest of minority Shareholders and other Stakeholders. The effective participation of Independent Non-Executive Directors serves to promote greater transparency, accountability and balance in the Board's decision making process.

Non-Independent Non-Executive Directors

The Non-Independent Non-Executive Directors each occupy, or have occupied, senior positions in industry, bringing valuable external perspectives to the Board's deliberations through their working experience and business insight from other sectors enabling them to contribute significantly to Board decision-making process.

Company Secretary (Practice 1.4)

The Company Secretary is a licensed secretary qualified to act as Company Secretary under Section 235 of the Companies Act 2016. She has legal qualifications and provides legal and company secretarial advice to the Company's management team and the Board as a whole. All Board members have access to the advice and services of the Company Secretary in carrying out their duties. The Company Secretary facilitates overall compliance and adherence with the Listing Requirements, the Companies Act 2016 and the recommendations in the Malaysian Code on Corporate Governance (as amended from time to time).

ELECTION AND RE-ELECTION OF DIRECTORS

In compliance with the Constitution of the Company, one third of the Directors shall retire by rotation at each AGM and that a Director who is appointed during the year shall retire at the next AGM. The Company's Constitution further provides that all Directors shall retire from office at least once in every three years.

Currently there is no limit set for the tenure of the Directors, provided that they meet the assessment as well as the relevant codes and regulations on independence and retention, and there is strong justification for them to continue with their tenure based on their performance and contribution.

The Nominating & Remuneration Committee reviews and assesses the performance of all the Directors who are subject to re-election/retention at the AGM based on the following criteria, as approved by the Board and submits its recommendation to the Board for consideration prior to the proposed re-election/retention being presented to the Shareholders for approval:-

- Compliance with requirements of the relevant regulations;
- Participation in Board and Board Committee meetings;
- Quality of input;
- Understanding of roles and responsibilities;
- Assessment of continued independence; and
- Providing value to the Board through experience and expertise.

BOARD MEETINGS (PRACTICE 1.5)

The Board held four meetings during the financial year. Board meeting papers for Board and Board Committee meetings are generally provided to Directors seven days in advance of the date of the proposed meetings. All proceedings of board meetings are minuted and circulated to the Board members well in advance of the next Board meeting including with follow up action items duly updated.

Board Meeting Attendance

The Board convenes at least four (4) scheduled Board meetings during each financial year. More meetings will be scheduled depending on business requirements, where appropriate. In FY2018, four (4) Board meetings were held in total. In addition to the scheduled Board meeting, all of the Board members also attend the Company's Annual General Meeting. Where necessary, decisions of the Board are also made by way of circular resolutions in between scheduled meetings during the financial year. The Directors' attendance at Board meetings and the Annual General Meeting held for the year ended 31 December 2018 are as follows:-

CURRENT BOARD MEMBERS

Dato' Zainal Abidin bin Putih Chairman, Independent Non-Executive Director	100%  AGM 1/1	Dato' Dr Rosini binti Alias ⁽¹⁾ Non-Independent Non-Executive Director	100%  AGM 1/1
Boey Tak Kong Independent Non-Executive Director	100%  AGM 1/1	Tengku Nurul Azian binti Tengku Shahriman ⁽²⁾ Independent Non-Executive Director	100%  AGM N/A
Tarang Gupta Executive Director	100%  AGM 1/1	Jurgen Clemens Johannes Sandmann ⁽³⁾ Non-Independent Non-Executive Director	100%  AGM N/A
Saw Chooi Lee Non-Independent Non-Executive Director	100%  AGM 1/1	Datin Seri Sunita Mei-Lee Rajakumar ⁽⁴⁾ Independent Non-Executive Director	AGM N/A
Bernardus Hermannus Maria Kodden Non-Independent Non-Executive Director	75%  AGM 1/1		

FORMER BOARD MEMBERS

Foo Swee Leng ⁽⁵⁾ Independent Non-Executive Director	100%  AGM N/A
Dato' Dr Mhd Nordin bin Mohd Nor ⁽⁶⁾ Non-Independent Non-Executive Director	AGM N/A 

COMPANY SECRETARY

Chen Bee Ling ⁽⁷⁾ Company Secretary	100%  AGM 1/1
Katina Nurani binti Abd Rahim ⁽⁸⁾ Company Secretary	100%  AGM 1/1

Notes:

- (1) Appointed as Non-Independent Non-Executive Director w.e.f 16 March 2018
- (2) Appointed as Independent Non-Executive Director w.e.f 25 June 2018
- (3) Appointed as Non-Independent Non-Executive Director w.e.f 25 June 2018

Corporate Governance Overview Statement

- (4) Appointed as Independent Non-Executive Director w.e.f 27 February 2019
- (5) Resigned as Independent Non-Executive Director w.e.f. 26 April 2018
- (6) Resigned as Non-Independent Non-Executive Director w.e.f. 16 March 2018
- (7) Resigned as Company Secretary w.e.f. 6 April 2018
- (8) Appointed as Company Secretary w.e.f. 6 April 2018

Key activities

During the year, key activities of the Board include:

- Reviewing and approving the 4th quarter and full year financial results for the financial year ended 31 December 2017
- Reviewing and approving the Director's Report and Audited Accounts for the financial year ended 31 December 2017.
- Reviewing and approving the quarterly financial results up to 3rd quarter for the financial year ended 31 December 2018
- Reviewing the financial report on the Company's quarterly performance and outlook for the year.
- Approving dividend payments and reviewing the solvency position of the Company.
- Reviewing and approving the Company's strategy and business plans.
- Receiving updates on risk management status and sustainability initiatives.
- Receiving and approving the Company's budget for FY2019.
- Receiving updates on the Recurrent Related Party Transactions by the Company.
- Reviewing and approving the Terms of Reference of the Board, Audit Committee and the Nominating and Remuneration Committee.
- Reviewing the audit report findings of the Internal Audit, its recommendations and Management responses.
- Reviewing the audit reports of the External Auditor.
- Reviewing and validating the results of the 2017 Evaluation on the Effectiveness of Board, the Nominating & Remuneration Committee, the Audit Committee, the Managing Director and on each individual Board member.
- Reviewing the term of office and assess the retirement of Directors by rotation, the retention of Directors and eligibility for re-election or retention.
- Reviewing and approving the recommendation for the 2019 proposed director fees and the related benefits to be paid to the Non-Executive Directors, subject to the approval of the shareholders.
- Reaffirming and ratifying the Circular Resolutions passed by the Board.
- Reviewing, approving and noting the Company's announcements which had been released to Bursa.
- Assessing and recommending the re-appointment of the Company's External Auditor for the financial year ending 31 December 2018 and for the Directors to fix their remuneration.
- Reviewing and approving the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates and New Shareholders' Mandate for Recurrent Related Party Transaction of revenue or trading nature.
- Reviewing and approving the Statement on Internal Control and Risk Management for the Annual Report 2017.
- Preparing for and attending the 2018 AGM.

BOARD CHARTER (Practice 2.1)

The Board has adopted a Board Charter since 2014, which sets out the Board's strategic intent and outlines the Board's roles and responsibilities, the vision, mission, shared values and principles, as well as the policies and strategic development of the Company. The Board Charter specifies clearly the roles and responsibilities of the Board, the Board Committees, individual directors and management. The latest update to the Board Charter was approved by the Board in April 2018. The Charter is available for reference at the Company's website at www.dutchlady.com.my.

THE COMPANY'S CODE OF CONDUCT (Practice 3.1)

The Board is guided by the RFC code for good business conduct which is known as Compass ("**Compass**"). Compass plays an important role in the management of compliance risks and sets out the values, principles and guidelines as to how the Company conducts its business to ensure integrity, transparency and accountability. Compass has, under its purview, underlying policies which include Doing Honest Business and Fair Competition policies, all of which is embedded in the Company's working culture and encapsulated in the Company's Employee handbook. A copy of Compass is available on the Company's website at www.dutchlady.com.my.

WHISTLEBLOWING - THE SPEAK UP PROCEDURE (Practice 3.2)

Under Compass, employees and third party stakeholders have access to the Speak-Up Procedure, which serves as an avenue for employees and third party stakeholders to voice out their concerns on matters relating to Compass. The Speak-Up Procedure clearly sets out a well-defined process upon which Compass-related matters can be raised in confidence and in good faith. A copy of the Speak Up Procedure is available on the Company's website at www.dutchlady.com.my.

The Company's employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Company's business and affairs by bringing up these issues with their Line Managers or through the internal whistleblowing procedures.

BOARD COMPOSITION (Practice 4.2)

Currently the Board consists of 4 independent and 5 non-independent directors. Of the 5 non-independent directors, 4 are nominees of RFC, and 1 is a nominee of Permodalan Nasional Berhad. Mr Boey Tak Kong has indicated his intention to step down from the Board after the Company's AGM on 26 April 2019 following which there will be 3 independent directors and 5 non-independent directors. However, Ms Saw Chooi Lee who is currently a non-independent director will be re-designated as an independent director by January 2020 i.e. 2 years after her resignation as Managing Director of the Company and all other positions with the RFC Group. As such, by January 2020, there will be 4 independent directors and 4 non-independent directors on the Board.

The Company's major shareholder is a foreign co-operative of farmers. The Board considers that the current composition fairly reflects the foreign direct investment and the investment of the minority shareholders. The proportion of independent directors ensures effective checks and balances on the Board and the independent directors effectively safeguard the interest of the minority shareholders.

Dato' Zainal Abidin bin Putih has served the Board for more than 9 years (but less than 12 years) as an Independent Non-Executive Director. The Board will seek shareholders' approval to retain Dato' Zainal as an Independent Non-Executive Director.

Details of all Directors and their biographies are provided in the Annual Report.

Corporate Governance Overview Statement

Appointments to the Board (Practice 4.4)

The Company's Board consists of qualified individuals with a good mix of operational and commercial experience. Members of the Board have both local and international experience and together, they bring a wide range of competencies, capabilities, technical skills and relevant business experience.

Board Diversity (Practice 4.5)

Out of the 9 members currently on the Board, 4 are women. As such the Board comprises of 44% women directors. After the forthcoming 2018 AGM, the Board shall comprise of 50% women directors.

The Appointment Process (Practice 4.6)

In respect of the appointment of all directors, the Nominating & Remuneration Committee considers shortlisted candidates based on their profiles, professional achievements and personality assessments. Appropriate candidates for independent directors are sourced through recruitment firms based on the needs of the Board. The Nominating & Remuneration Committee then ensures that the candidates are suitable and of sufficient caliber for recommendation for the approval of the Board by reviewing the profiles of candidates and where deemed appropriate, conducting interviews with the shortlisted candidates.

Composition of the Nominating & Remuneration Committee (Practice 4.7)

The Nominating & Remuneration Committee establishes for itself the procedure and frequency of its meetings, but shall meet at least once annually. The quorum for the meeting shall consist of any two independent non-executive Directors appointed to the Committee. The MD, other Board members and any other persons may be invited to attend the meetings as necessary.

The terms of reference of the Nominating & Remuneration Committee is available on the Company's website, www.dutchlady.com.my.

The Committee met two (2) times in 2018 and the attendance of each individual is set out below:

MEMBERS

<p>Dato' Zainal Abidin bin Putih Chairman, Senior Independent Non-Executive Director</p>	<p>100%</p> 	<p>Saw Chooi Lee Member, Non-Independent Non-Executive Director</p>	<p>100%</p> 
<p>Boey Tak Kong Member, Independent Non-Executive Director</p>	<p>100%</p> 	<p>Tengku Nurul Azian binti Tengku Shahriman⁽²⁾ Member, Independent Non-Executive Director</p>	<p>100%</p> 
<p>Bernardus Hermannus Maria Kodden⁽¹⁾ Member, Non-Independent Non-Executive Director</p>	<p>100%</p> 		

COMPANY SECRETARY

<p>Chen Bee Ling⁽³⁾ Company Secretary</p>	<p>100%</p> 
<p>Katina Nurani binti Abd Rahim⁽⁴⁾ Company Secretary</p>	<p>100%</p> 

Notes:

- (1) Appointed as member on 25 June 2018
- (2) Appointed as member on 25 June 2018
- (3) Resigned as Company Secretary w.e.f. 6 April 2018
- (4) Appointed as Company Secretary w.e.f. 6 April 2018

TRAINING AND DEVELOPMENT

Induction programs are conducted for newly appointed Directors, which include briefings by certain members of Management. The Directors will be provided with the necessary information to assist them in understanding the operations of the Company, current issues and corporate strategies as well as the management structure of the Company and the RFC Group. All Directors have attended and successfully completed the Mandatory Accreditation Program as required under the Listing Requirements.

In addition, the Directors are encouraged to attend continuous education programs, talks, seminars, workshops and conferences to enhance their skills and knowledge and to ensure that they are kept abreast with new developments in the business environment, corporate governance and enhance their skills and knowledge.

The Directors who were on the Board in FY2018 attended the following training programs during FY2018 to further enhance their knowledge and to enable them to discharge their duties and responsibilities more effectively:

DIRECTOR	TITLE OF TRAINING PROGRAMME	ORGANISER	DATE
Dato' Zainal Abidin bin Putih	Directors In-House Training - Boardroom Dynamics - Shaping High Performance Transformation	Land & General Berhad	1 March 2018
	Audit Committee Conference 2018	Malaysian Institute of Accountants	27 March 2018
	BNM Annual Report 2017/Financial Stability & Payment Systems Report 2017 Briefing	Bank Negara Malaysia	28 March 2018
	Asia Launch of Global Financial Development Report 2017/2018: Bankers without Borders. Presentation of Key Findings followed with Panel Discussion: The Future of International Banking - Benefits & Costs	World Bank Group /Bank Negara	12 April 2018
	5 th BNM-FIDE Forum Annual Dialogue with Deputy Governor of BNM	FIDE Forum	19 April 2018
	CIMB: Beyond T18 Framing & Dialogue	CIMB Bank Berhad /McKinsey	26 April 2018
	Sustainable Finance Training for Board of Directors	CIMB Bank Berhad	1 August 2018
	CIMB Board Beyond 2018 Workshop	CIMB Bank Berhad	2 August 2018
	L&G MFRS Briefing for Board Members	Land & General Berhad	6 August 2018
	CIMB 2019 Risk Posture Workshop	CIMB Bank Berhad	20 August 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Khazanah Mega Trends Forum - Recalibrating Markets, Firms, Society & People	Khazanah Nasional Bhd	8 - 9 October 2018
	Panel Discussion: Effective Policy Making: Harnessing Synergies and Cooperation	Bank Negara Malaysia	8 October 2018

Corporate Governance Overview Statement

DIRECTOR	TITLE OF TRAINING PROGRAMME	ORGANISER	DATE
	Malaysia: A New Dawn Conference	Ministry of Finance Malaysia, in partnership with CIMB Investment Bank, Maybank Investment Bank & RHB Investment Bank	8 October 2018
	CIMB Group Annual Management Summit	CIMB Bank Berhad	23 - 24 November 2018
Tarang Gupta	Corporate Governance Briefing Session: MCCG Reporting & CG Guide	Bursa Malaysia Securities Berhad	2 March 2018
	Mandatory Accreditation Programme	The ICLIF Leadership and Governance Centre	9 - 10 April 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
Boey Tak Kong	Cloud Day - Next Is Now	Oracle Corporation & Deloitte	08 March 2018
	Corporate Governance Briefing Sessions - MCCG Reporting & CG Guide	Bursa Malaysia, Securities Commission Malaysia & KPMG	15 March 2018
	Audit Committee Conference 2018 - Internal Auditing in the Age of Disruption	Malaysian Institute of Accountants & The Institute of Internal Auditors Malaysia	27 March 2018
	AI and Accountants: Armageddon or Advancement	University of London & ACCA	09 April 2018
	Artificial Intelligence and The Future of Accountancy	Malaysian Institute of Accountants & ICAEW	10 April 2018
	GST Abolishment	Crowe Horwath	23 May 2018
	Sustainability Engagement Series	Bursa Malaysia & PWC	05 July 2018
	Ethics Seminar on Code of Ethics - A Key to Public Trust	Malaysian Institute of Accountants	18 July 2018
	Introduction to Corporate Liability Provision	Malaysian Institute of Corporate Governance	26 July 2018
	Audit Committee Institute Breakfast Roundtable 2018	KPMG	3 August 2018
CG Assessment Using The Revised ASEAN Scorecard Methodology (Malaysian PLCs)	Bursa Malaysia & MSWG	10 August 2018	

DIRECTOR	TITLE OF TRAINING PROGRAMME	ORGANISER	DATE
	The Malaysian Sales Tax & Services Tax Makes A Comeback: How Should Business Prepare?	Wong & Partners	13 August 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Blockchain	NEM	30 August 2018
	Technology Conference: A Focus on E-Commerce	Wong & Partners	27 September 2018
	2018 ACCA Global Ethics	Association of Chartered Certified Accountants	17 October 2018
	Oracle Innovation Summit	Oracle Corporation	8 November 2018
Saw Chooi Lee	Self-Aware Leadership and Brand Presence	Lean In Malaysia	7 April 2018
	Luncheon Talk - Women Directors in Men's World	Tun Fatimah Hashim Women's Leadership Centre, Universiti Kebangsaan Malaysia	13 July 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Inclusivity and Sustainability in the Era of Fourth Industrial Revolution	Tun Fatimah Hashim Women's Leadership Centre, Universiti Kebangsaan Malaysia	12 - 13 November 2018
Dato' Dr Rosini binti Alias	Mandatory Accreditation Programme	The ICLIF Leadership and Governance Centre	9 - 10 April 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Inclusivity and Sustainability in the Era of Fourth Industrial Revolution	Tun Fatimah Hashim Women's Leadership Centre, Universiti Kebangsaan Malaysia	12 - 13 November 2018
Bernardus Hermannus Maria Kodden	Mandatory Accreditation Programme	The ICLIF Leadership and Governance Centre	9 - 10 April 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018

Corporate Governance Overview Statement

DIRECTOR	TITLE OF TRAINING PROGRAMME	ORGANISER	DATE
Tengku Nurul Azian binti Tengku Shahrman	Corporate Governance Briefing Sessions: MCGG Reporting & CG Guide	Bursa Malaysia Berhad	1 March 2018
	3 rd Tun Abdullah Ahmad Badawi Human Capital Summit	Asian Strategy & Leadership Institute	27 March 2018
	Directors' Induction Training	Dutch Lady Milk Industries Berhad	16 August 2018
	5 th Pre-University Conference, Sunway College	Sunway College	25 August 2018
	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Sunway Leaders Conference 2018	Sunway Group	5 October 2018
	International Conference on Public-sector Productivity	Asian Productivity Organization (held in Tagaytay Philippines)	22 - 24 November 2018
Jurgen Clemens Johannes Sandmann	Workshop - Leveraging Diversity Through Culture Awareness	Dutch Lady Milk Industries Berhad	28 August 2018
	Mandatory Accreditation Programme	The ICLIF Leadership and Governance Centre	12 - 13 November 2018

BOARD EVALUATION (Practice 5.1)

The Board undertakes an annual evaluation of the Board's effectiveness. As 6 out of 9 of the Board members were appointed during FY2018, it was decided that the evaluation on Board effectiveness by External Consultants should be postponed to provide more time for the newly appointed directors to become familiar with the Board and the Company. As such, an internal annual evaluation on Board effectiveness was conducted in December 2018 via questionnaires, led by the Chairman of the Nominating & Remuneration Committee with the support of the Company Secretary.

The evaluation was conducted on the Board, the Nominating & Remuneration Committee, the Audit Committee, the Managing Director and on each individual Board member through a peer evaluation. By 2020 the Board shall carry out a review on Board effectiveness using External Consultants and thereafter this shall be carried out on a periodic basis.

There was 100% participation in the evaluation exercise. Overall, the results of the evaluations were positive based on the majority of responses and feedback received. Based on the results, the Nominating & Remuneration Committee was satisfied as to the effectiveness of the Board as a whole, the Committees of the Board, the Managing Director and the individual Directors. The strengths of the Board and the areas for improvement which were identified following the evaluation were noted and discussed by the Board and the Board also discussed the appropriate remedial steps which shall be taken to address these areas for improvement.

REMUNERATION - POLICIES AND PROCEDURES (Practice 6.1 and 6.2)

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

The remuneration for Executive Directors and senior management of the Company are based on the human resource policies and procedures of the RFC Group. The Company follows the performance appraisal system and compensation and benefits scheme of the RFC Group. For Executive Directors of the Company, corporate and individual performance are

rewarded through the use of an integrated pay benefits and bonus structure. Market competitiveness, business results and individual performance are also considered by the RFC Group in evaluating the Executive Director's remuneration. The Executive Director is not paid meeting attendance allowance or directors' fees. His annual performance appraisal was carried out in Q1 of 2019 for his performance in 2018.

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

The Nominating & Remuneration Committee reviews the fees annually by benchmarking with other companies in the same industry and of similar size. The responsibilities and duties of the directors are also taken into account when reviewing the fees.

The Terms of Reference for the Nominating & Remuneration Committee and the Board's Remuneration Policy is available on the Company's website www.dutchlady.com.my

REMUNERATION OF DIRECTORS AND TOP SENIOR MANAGEMENT (Practice 7.1 and 7.2)

The aggregate remuneration of Directors of the Company for the financial year ended 31 December 2018 is as follows:

	EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS
	RM'000	RM'000
Directors' fees	-	350
Meeting & Committee allowances	-	70
Salaries and other emoluments	1,028	38
Benefits in kind	401	-

The details of the total remuneration of the directors on a named basis for the financial year ended 31 December 2018 are as follows:-

NAME	DIRECTORS' FEES	MEETING & COMMITTEE ALLOWANCES	SALARIES AND OTHER EMOLUMENTS	BENEFITS IN KIND	TOTAL
	RM	RM	RM	RM	RM
Dato' Zainal Abidin bin Putih	106,837	18,500	-	-	125,337
Tarang Gupta	-	-	1,028,097	401,213	1,429,310
Boey Tak Kong	60,900	19,500	-	-	80,400
Saw Chooi Lee	60,900	7,000	-	-	67,900
Dato' Dr Rosini binti Alias ⁽¹⁾	45,675	8,500	-	-	54,175
Tengku Nurul Azian binti Tengku Shahrizan ⁽²⁾	30,450	7,500	-	-	37,950
Dato' Dr Mhd Nordin bin Mhd Nor ⁽³⁾	15,225	-	-	-	15,225
Foo Swee Leng ⁽⁴⁾	30,450	9,250	37,700	-	77,400

Notes:

(1) Appointed as Non-Independent Non-Executive Director w.e.f 16 March 2018

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- (2) Appointed as Independent Non-Executive Director w.e.f 25 June 2018
- (3) Resigned as Independent Non-Executive Director w.e.f. 16 March 2018
- (4) Resigned as Non-Independent Non-Executive Director w.e.f. 26 April 2018

Note: No Directors' fee and benefits paid to Bernardus Hermannus Kodden and Jurgen Sandmann in lieu of the management fee paid to RFC.

The most senior member of management is an Executive Director of the Company and his remuneration is disclosed under remuneration of directors in the CG Overview Statement. Details of the remaining members of senior management will be shared on general terms and on an aggregated basis only as the Board is of the view that it would not be in the best interest of the Company to disclose these details given the competitiveness in the market for good senior managers in the consumer goods industry. The Board feels that the details provided is sufficiently transparent and allows stakeholders to assess the reasonableness of remuneration paid to members of senior management.

The Board is of the view that the disclosure of remuneration details may be detrimental to its business interests, given the competitive landscape for key personnel with the requisite knowledge, technical expertise and working experience in the Company's business activities, where intense headhunting is a common industry challenge. Accordingly, such disclosure of specific remuneration information may give rise to recruitment and talent retention issues.

For the top remaining senior management personnel, the aggregate remuneration paid for FY2018 is approximately RM3.3 million.

PRINCIPLE B

EFFECTIVE AUDIT AND RISK MANAGEMENT

THE AUDIT COMMITTEE (Practice 8.1, 8.2, 8.3 and 8.5)

The Audit Committee consists of a majority of independent directors. The Committee is chaired by Mr Boey Tak Kong who is an Independent Non-Executive Director. Over the course of FY2018, the Committee comprised 5 members (3 independents and 2 non independents). Details on the members of the Audit Committee are contained in the Report to the Audit Committee in the Annual Report. The Board has not appointed any of the Company's former key audit partners as a member of the Audit Committee. The Audit Committee will observe a minimum two (2) year cooling-off period before any former key audit partner can be appointed as a member of the Audit Committee.

The Board considers the composition of the Audit Committee as fairly reflecting the investment of minority shareholders. The proportion of the independent directors ensures effective check and balance on the Board with the independent directors acting as caretakers for the minority shareholders.

The written terms of reference for the Audit Committee is available on the Company's website www.dutchlady.com.my.

In August 2018 the Audit Committee had a meeting with the Company's External Auditor, Messrs. PricewaterHouse Coopers (PwC), where PwC presented the annual audit plan for FY2018. In that meeting, PwC highlighted the key focus areas, methodology and new accounting standards. The External Auditor also briefed the Audit Committee on their team members and the resources allocated to the Company. After discussion and deliberation, the Audit Committee approved the audit plan. The Company also sought the confirmation of independence from PwC.

RISK MANAGEMENT AND INTERNAL CONTROLS (Practice 9.1 and 9.2)

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

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

INTERNAL AUDIT (Practice 10.1 and 10.2)

The Company has an in-house Internal Audit and Internal Control Department which reports directly to the Audit Committee and assists the Audit Committee in the discharge of its duties and responsibilities. Its role is to provide independent assurance of the adequacy and the effectiveness of the risk management, internal control and governance process as well as to carry out investigations on any complaints received. The investigation findings and audit recommendations and measures are reported by the Internal Audit Manager to the Audit Committee at each meeting.

The Company’s Internal Audit is headed by Miss Snowy Khoo who has over 10 years of internal and external audit experience and she is a Fellow of Association of Chartered Certified Accountants, United Kingdom. Further information on the Internal Audit function is set out in the Statement of Internal Control and Risk Management and the Report of the Audit Committee.

PRINCIPLE C

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS
(Practice 11.1, 12.1, 12.2 and 12.3)

AGM

The Company disseminates information to its stakeholders through the AGM, its Annual Report and the announcements made on Bursa. The Company also meets up with investment analysts and fund managers periodically. The Company actively responds to requests for discussions with institutional shareholders and analysts, locally and abroad, to provide them better insights into the Company.

The Board also takes reasonable steps to encourage shareholder participation at general meetings. Shareholders are encouraged to participate in the Question and Answer session on the resolutions being proposed or on the Company’s operations and performance in general. Shareholders who are unable to attend are allowed to appoint proxies in accordance with the Company’s Constitution to attend and vote on their behalf. The 56th AGM will be held on 26 April 2019 at the Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan .

The Company’s Notice of AGM is published in a local newspaper and is issued to shareholders at least 28 days prior to the date of the AGM.

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WEBSITE

The Company's corporate website provides quick access to information about the Company. The information on the corporate websites includes corporate profile, the international corporate structure, information on Board of Directors and the Management team, awards and achievements, press releases, corporate news, financial results, announcements to Bursa, as well as an overview of the Company's performance and operations.

ANNUAL REPORT

The Annual Report provides a comprehensive report on the Company's operations and financial performance. The Annual Report is printed in summary form which is disseminated to all its shareholders. An online version of the Annual Report is also available on the Company's website, www.dutchlady.com.my.

COMPLIANCE STATEMENT BY THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE STATEMENT

(a) Share Buyback

The Company did not undertake any share buyback during FY2018. As at the date of this Statement, there are no ordinary shares held in treasury.

(b) Audit Fees

(i) Audit Fees for the Company:

The Company's internal audit function is performed in-house by a team of internal auditors led by the Head of Internal Audit and Internal Control. The total cost incurred by the Internal Audit and Internal Control Department in relation to the conduct of its functions for FY2018 was RM216,326.

The amount of audit fees paid to External Auditors by the Company for FY2018 is RM104,733.

(ii) Non-Audit Fees

The amount of non-audit fees paid to External Auditors by the Company for the FY2018 is RM20,000. The non-audit fees paid is in respect of the review of Statement of Risk Management & Internal Control.

(c) Material Contracts Involving Substantial Shareholders

Save and except for the recurrent related party transactions entered into pursuant to the shareholders' mandate, there were no material contracts either still subsisting at or entered into since the end of FY2018 by the Company and/or its subsidiaries which involved Directors' and/or substantial shareholders' interest.

This Corporate Governance Overview Statement is made in accordance with the resolution of the Board of Directors dated 27 February 2019.



Audit Committee Report

The Audit Committee provides critical oversight of the Company's financial reporting process, monitoring the external and internal auditing process, compliance with relevant legal and statutory matters and other matters delegated by the Board.

A. COMPOSITION

CHAIRMAN

Boey Tak Kong	Independent Non-Executive Director
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MEMBERS

Dato' Zainal Abidin bin Putih	Independent Non-Executive Director
Dato' Dr Rosini binti Alias ⁽¹⁾	Non-Independent Non-Executive Director
Tengku Nurul Azian binti Tengku Shahrirman ⁽²⁾	Independent Non-Executive Director
Jurgen Clemens Johannes Sandmann ⁽³⁾	Non-Independent Non-Executive Director
Datin Seri Sunita Mei-Lin Rajakumar ⁽⁴⁾	Independent Non-Executive Director

FORMER MEMBERS

Foo Swee Leng ⁽⁵⁾	Independent Non-Executive Director
Dato' Dr Mhd Nordin bin Mohd Nor ⁽⁶⁾	Non-Independent Non-Executive Director

Notes:

- (1) Appointed as Member of the Audit Committee on 25 June 2018
- (2) Appointed as Member of the Audit Committee on 25 June 2018
- (3) Appointed as Member of the Audit Committee on 25 June 2018
- (4) Appointed as Member of the Audit Committee on 27 February 2019
- (5) Resigned as Member of the Audit Committee on 26 April 2018
- (6) Resigned as Member of the Audit Committee on 16 March 2018

The Audit Committee is chaired by Boey Tak Kong who is a member of the Malaysian Institute of Accountants and a Fellow of the Association of Chartered Certified Accountants (UK). He has extensive experience in broad senior management experience in financial management, internal audit, general management, corporate affairs and regional business development with 5 major listed groups with listings in Malaysia, Singapore, United Kingdom, Australia and New Zealand.

Dato' Zainal Abidin bin Putih is also a member of the Malaysian Institute of Accountants, a Member of the Malaysian Institute of Certified Public Accountants and a Fellow of the Association of Chartered Accountants in England & Wales. He has extensive experience in audit, management consulting and taxation, having been involved as a practicing accountant and consultant throughout his career holds several directorships in other public listed companies.

Dato' Dr Rosini binti Alias is a Doctor of Veterinary Medicine, DVM, from Universiti Pertanian Malaysia. She was formerly the Deputy Director-General of the Department of Veterinary Services (DVS), Malaysia and has vast experience in the veterinary and agricultural sector with a career spanning over 30 years.

Audit Committee Report

Tengku Nurul Azian binti Tengku Shahrman is an Advocate and Solicitor of the High Court in Malaya, a Barrister of Law of the Honourable Society of Inner Temple, and has an LLB (Hons) from the School of Oriental & African Studies, University of London. She has over 19 years of broad experience in investment banking and corporate finance and is currently Executive Vice President & Partner of PEMANDU Associates Sdn Bhd, a management consulting firm which is focused on public sector transformation and business turnaround with global experience.

Jurgen Clemens Johannes Sandmann has a Master's in Business Administration specializing in Corporate Finance Management Accounting from the University of Amsterdam, in the Netherlands. He has held various senior managerial positions in finance within Royal FrieslandCampina N.V. from 2011 to 2017 and is currently the Finance Director of FrieslandCampina, Specialized Nutrition, Netherlands in January 2018.

Datin Seri Sunitha Mei-Lin Rajakumar has an LLB (Hons) from the University of Bristol and qualified as a Member of the Institute of Chartered Accountants in England & Wales in 1994. She sits on the Board and chairs the Audit and Risk Committees of other public listed companies in Malaysia. Her working experience includes 4 years in Earnst & Young in London and 6 years at RHB Investment Bank Berhad in Kuala Lumpur before she was invited to manage Encipta Ltd, a foreign technology venture capital fund under MIMOS Berhad.

B. TERMS OF REFERENCE

STRUCTURE OF THE AUDIT COMMITTEE

The Audit Committee is a Committee appointed by the Board and shall comprise at least 3 directors. All members should be Non-Executive Directors with the majority of the members to be Independent Non-Executive Directors. At least one should be a Chartered Accountant of the Malaysians Institute of Accountants. The Chairman of the Audit Committee shall be an Independent Non-Executive Director and be elected from amongst their members. All members of the Committee, including the Chairman, will hold office until otherwise determined by the Board.

AUTHORITY

The Audit Committee is authorised by the Board to investigate any activity within its Terms of Reference and to seek any information it requires from the Management and any employee. The Management and employees are directed to co-operate with any request made by the Audit Committee. The Audit Committee may convene meetings with External Auditors or Internal Auditors without the presence of Management, if deemed necessary.

The Audit Committee is authorised by the Board to obtain independent, legal and professional advice to secure the attendance of outsiders with relevant experience and expertise if it considers this to be necessary.

FUNCTIONS

The functions of the Audit Committee are:-

- a) To consider the appointment of the External Auditors and fix their audit fee, and any question of their resignation or dismissal and the reasons thereof;
- b) To discuss with the External Auditors their audit plan, the nature and scope of audit, evaluation of the Company's systems 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 financial 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 Bursa Securities and legal requirements; and
 - (vi) significant adjustments arising from the audit.
- d) To consider if the annual financial statements are in compliance with applicable accounting standards in accordance with the approved Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016;
- e) 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;
- f) To review the External Auditors' Management letter and Management's response thereon;
- g) To do the following, in relation to the Internal Audit and Internal Control Department :
- (i) review the adequacy of the scope, functions, competency and resources of the Internal Audit and Internal Control Department, 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 and Internal Control Department by Management;
 - (iii) approve any appointment and termination of senior staff members of the Internal Audit and Internal Control Department, and
 - (iv) take cognizance of resignations of internal audit staff members;
- h) To consider any related party transactions and conflict of interest situations that may arise within the Company;
- i) To consider major findings of any internal investigations and Management's response thereon;
- j) To review the risk management framework, internal control processes and receive the Risk Management update from Management;
- k) To review the draft circulars with respect to obtaining shareholders' mandate on any Recurrent Related Party Transactions of a Revenue or Trading Nature, before submission to the Board of Directors for approval;
- l) To meet with External Auditors at least twice in any financial year without the presence of Management to discuss any issues or reservations arising from the audits and any other matter the External Auditors may wish to discuss; and
- m) To consider any other topics, as defined by the Board.

The Audit Committee's Terms of Reference can be found on the Company's website www.dutchlady.com.my

C. MEETINGS AND MINUTES

The Audit Committee shall meet at least 4 times a year and the quorum for any meeting shall be 2 members, who must be Independent Directors. The Managing Director, Finance Director and the Internal Audit Manager will be invited to attend all meetings of the Audit Committee. There shall be at least 2 meetings a year with External Auditors including 2 meetings without the members of Management and External Auditors will also be invited to attend additional meetings when appropriate. The External Auditors may request a meeting if they consider it necessary. Other Board members may attend meetings upon the invitation of the Audit Committee.

Audit Committee Report

The Company Secretary shall be the Secretary of the Audit Committee and as a reporting procedure, the minutes of each Audit Committee meeting shall be circulated to all members of the Board.

A total of 4 meetings were held during the financial year 2018. The membership status and attendance record of each of the members are as follows:-

	ATTENDANCE
CURRENT MEMBERS	
Boey Tak Kong Chairman, Independent Non-Executive Director	4/4
Dato' Zainal Abidin bin Putih Member, Independent Non-Executive Director	4/4
Dato' Dr Rosini binti Alias ⁽¹⁾ Member, Non-Independent Non-Executive Director	2/2
Tengku Nurul Azian binti Tengku Shahriman ⁽²⁾ Member, Independent Non-Executive Director	2/2
Jurgen Clemens Johannes Sandmann ⁽³⁾ Member, Non-Independent Non-Executive Director	2/2
Datin Seri Sunita Mei-Lin Rajakumar ⁽⁴⁾ Member, Independent Non-Executive Director	N/A
FORMER MEMBERS	
Foo Swee Leng ⁽⁵⁾ Member, Independent Non-Executive Director	2/2
Dato' Dr Mhd Nordin bin Mohd Nor ⁽⁶⁾ Member, Non-Independent Non-Executive Director	0/1

Notes:

- (1) Appointed as Member of the Audit Committee on 25 June 2018
- (2) Appointed as Member of the Audit Committee on 25 June 2018
- (3) Appointed as Member of the Audit Committee on 25 June 2018
- (4) Appointed as Member of the Audit Committee on 27 February 2019
- (5) Resigned as Member of the Audit Committee on 26 April 2018
- (6) Resigned as Member of the Audit Committee on 16 March 2018

D. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

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

(a) Financial Reporting and compliance

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



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

(b) Assessing Independence, Suitability, Objectivity and Cost Effectiveness of the External Auditors

The Audit Committee annually reviewed the independence, suitability, objectivity and cost effectiveness of the External Auditors before approving their remuneration and recommending their re-appointment to the shareholders. The factors considered include the competency, and the adequacy of experience and resources of the firm and professional staff assigned to perform the audit.

As part of the annual audit exercise, the Audit Committee obtained assurance from the External Auditors confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. Following the annual assessment review and the assurance obtained, the Audit Committee remains confident of the External Auditor's independence and suitability.

(c) Risk management and internal controls

The Audit Committee took note of the Company's risk management and the control environment guidelines as implemented using the RFC Internal Control Framework and the Enterprise Risk Management programme.

The Audit Committee also received Risk Management progress reports from Management quarterly whereby the Audit Committee took note of the mitigating controls and action plans taken to mitigate the identified business risks.

(c) Going Concern assessment

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

(d) External audit

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

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

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

The Audit Committee reviewed the financial statements to take note of changes to the approved accounting standards and new application on financial reporting disclosures under the Listing Requirements.

(e) Internal Audit

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

(f) Governance

Reviewed the Audit Committee Report prior to the Board's approval for inclusion in the 2017 Annual Report. Reviewed the Statement of Internal Control and Risk Management and recommended to the Board for inclusion in the 2017 Annual Report.

Audit Committee Report

(f) Other Matters

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

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

E. INTERNAL AUDIT FUNCTION

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

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

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

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

- (a) Prepared the internal audit plan for the year, which is reviewed and approved annually by the Audit Committee, and updated where necessary by the Audit Committee.
- (b) Carried out all internal audit activities in accordance with the audit plan and adopts the Standards and Principles outlined in the International Professional Practices Framework (IPPF) of The Institute of Internal Auditors.
- (c) Prepared the internal audit programme based on the internal audit plan, for each activity or process to be audited.
- (d) Maintained the Company's Internal Control Framework, including periodically reviewing controls, organising self-assessments and ensured effectiveness of the system.
- (e) Discussed with auditees, process owners and Management on the results of the audit for each activity or process, and the recommendations for action plan to mitigate the identified risk or control work flow improvements.
- (f) On a quarterly basis, reviewed the Enterprise Risk Assessment updates, which enables the Company to update key risks direction, identify emerging risks and to define an adequate and practical mitigation action plan where necessary.



- (g) Reported to the Audit Committee on a quarterly basis, the results from the internal audit and governance issues identified together with Management Team's response and action plans.
- (h) Followed up on all the action plans agreed from the previous internal audit reports to ensure that all matters arising are adequate addressed by the Management.

Costs amounting to RM216,326 were incurred in relation to the internal audit function for the financial year ended 31 December 2018.

Further details of the activities of the Internal Audit and Internal Control Department are set out in the Statement on Risk Management and Internal Control of this Annual Report.

F. ANNUAL REVIEW AND PERFORMANCE EVALUATION

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

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

Statement of Risk Management and Internal Control

The Board of Directors affirms its responsibility for maintaining a sound and effective system of risk management and internal control and outlines the nature of risk management procedures and internal control system within Dutch Lady Milk Industries Berhad for the year under review.

RESPONSIBILITY AND ACCOUNTABILITY

The Board continues its commitment and responsibility towards effective risk management practices and system of internal controls which includes the adoption of appropriate Control Frameworks established by Royal FrieslandCampina N.V. ("RFC") and reviewing its effectiveness, adequacy and integrity. The Board is responsible for identifying the key internal and external business risks faced by the Company and for determining the course of actions to manage those risks. The Company continuously evaluates and manages risks and reviews the planned actions to safeguard shareholders' investments and the Company's assets.

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

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

RISK MANAGEMENT FRAMEWORK

The Company aims for transparency in identifying, evaluating and mitigating risks by adopting Enterprise Risk Management ("ERM") programme that was developed and issued by RFC based on internationally recognised COSO framework. This framework describes the management's risk appetite, structure, responsibilities, processes and governance reporting procedures. It has been developed to provide a reasonable degree of certainty that strategic objectives are achieved by creating focus, integrating control measures into the Company's activities, ensuring compliance with applicable laws and regulations, and by safeguarding the reliability of financial and non-financial reporting and the related explanatory notes.

The Company's risk management programme is led by the Managing Director and supported by a Risk Management Committee comprising of Management Team from all functional units of the Company. In providing assurance to the Board of Directors on the Company's adequacy and effectiveness of risk management, the Risk Management Committee carried out continuous review and update of the status of risk mitigation actions and identify emerging risks.

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

- Establish clear functional responsibilities and accountabilities within the Company's structures for management of risks;
- Enhance and improve corporate governance with a clear, concise and comprehensive structure for the Company;
- Promote an effective risk awareness where risk management is an integral aspect of the Company's business plan and project portfolio; and
- Ensure appropriate skills and resources are applied to risk management.



Risk Appetite

The Company's general risk appetite depends on the risk categories, as set out in the table below.

Risk Category and Risk Appetite

RISK CATEGORY	GENERAL RISK APPETITE
Strategic	The Company is prepared to take a certain degree of calculated risks relating to the realisation of its performance objectives and long-term goals.
Operational	The Company attempts to minimise the impact of unforeseen disruption on its operating activities.
Financial	The Company has a conservative and sound framework of financial policies and procedures to prevent risks that could have a significant impact on the financial results and material misstatements in its financial statements reporting.
Compliance	The Company applies a zero tolerance policy.

Key Risks and Uncertainties

Risk management discipline ensures that risk assessment is an on-going process whereby risks and risk mitigation measures are regularly reviewed and adjusted accordingly. A summary of the key and specific risks with which the Company is confronted that could impact the realisation of its strategic objectives, and the measures designed to mitigate these risks are contained in the table below.

RISKS	KEY RISKS FACTORS	RISK ACCEPTANCE	MITIGATION MEASURES
Process disruptions (O) Disruption of critical operational business processes.	<ul style="list-style-type: none"> Risk concentration (sites capacity, suppliers, service and supply chain providers) Limited alternative options Critical event 	Moderate The Company aims to limit the impact of unforeseen disruption on its business operations. For risk associated with critical event the Company accepts minor operational malfunctions, provided this does not affect the continuity of business processes.	<ul style="list-style-type: none"> A calamity and contingency plan is in place and is reviewed regularly. Evaluation and development of alternative options via other related parties, outsource and engagement program.
Agility of the Company and Innovation (S) Responsiveness and decisiveness to anticipate changes in market conditions and demand. Ability to renew the product range and to successfully respond to changing consumer preferences.	<ul style="list-style-type: none"> Inadequate response to changes in consumer or customer demands and their preferences Increasing local competition Greater demand for specific products that require diversification Increasing interest in health and nutrition Time-to-market Digital marketing 	Moderate The Company is prepared to accept a moderate level of risk as long as this does not endanger the Company's strategic long-term goals and market brand reputation.	<ul style="list-style-type: none"> Programmes for the analysis of consumer trends (market research, focus groups, preference testing) and competitor modus operandi. Processes designed to manage the innovation funnel and product development strategies. Reinforce World Class Operations Management (WCOM) for supply chain activities and Continuous Improvement Programmes for other processes. Regular analysis of competitor developments.

Statement of Risk Management and Internal Control

RISKS	KEY RISKS FACTORS	RISK ACCEPTANCE	MITIGATION MEASURES
Product quality and food safety (O,C) Poor product quality or product contamination that causes health hazards for consumers.	<ul style="list-style-type: none"> Production process problems that cause quality defects Increasing communication speed through social media Deliberate spread of quality problems by third parties 	Insignificant The Company maintains the highest food quality and food safety standards.	<ul style="list-style-type: none"> The Company adhering to the RFC internal quality and food safety system with FoQus quality program and undergo periodic audit verification. Transparent management reporting of quality trends and incidents throughout the organisation. In-depth root cause analysis is performed to ensure any incident is thoroughly investigated and appropriate corrective actions implemented to prevent and eliminate future occurrence.
Reputation (S) Potential reputational loss due to incidents or changes in public opinion.	<ul style="list-style-type: none"> Increased importance of public opinion, media and publicity Social media and transparency of information Unfounded or fake news in the media 	Moderate The Company is prepared to accept a moderate level of risk as long as this does not endanger the Company's strategic long-term goals.	<ul style="list-style-type: none"> Proactive involvement and communication with stakeholders (for example, governments and sector associations). Media and reputation tracking. Repressive measures, such as Crisis Management, training and testing. A special team in place to manage all such potential risks.
Financial and economic (F) Unfavourable development of the Company's financial position.	<ul style="list-style-type: none"> Overall excess or shortage of cash, insufficient access to capital, interest rates, currency or commodity pricing risks, credit risk exposure Geopolitical issues impact on local demand Price developments of raw materials 	Moderate The Company is prepared to accept a moderate impact of external developments on its financial position (indicator: 5% - 10% of total EBIT).	<ul style="list-style-type: none"> Procedures for planning, budgeting, forecasting and assessing business operations. Cash flow and working capital management. Monitoring and analysis of economic developments. Coordinated treasury and Currency Management. See notes to the financial statement 19.3 on financial risk management.

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 and non-financial information for use within the business and for publication. However, these controls provide only reasonable and not absolute assurance against material error, misstatement, loss or breach of set regulations.

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

- Board Committees**

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



- **Organisational Structure and Responsibility Levels**

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

- **Authority Levels, Acquisitions and Disposals**

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

Investment decisions are delegated to Management in accordance with authority limits. Appraisal and monitoring procedures are applied to all major investment decisions, and at times using external consultants for advisory services.

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

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

- **Procedure and Control Environment**

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

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

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

Since 2011, the Company has embarked upon FoQus, an internal broad based quality system for Food Safety and Quality Management System and Safety Health and Environment Management System within FrieslandCampina. Regular FoQus audit is carry out to ensure that products produced by the Company and the way in which they are being produced meet the necessary high standards on food safety, quality, labour safety and environment.

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

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

- **Standards of Business Ethics**

Employees are contractually bound to observe prescribed standards of business ethics when conducting themselves at work and in their relationship with external parties, such as customers and suppliers.

In this regard, the RFC Group's code for good business conduct, Compass, plays an important role in the management of compliance risk. This code of conduct and its underlying guidelines (which include the Speak-Up Procedure, Fair Competition guidelines and Doing Honest Business, amongst others) forms the basis of the honest, respectful and

Statement of Risk Management and Internal Control

transparent business conduct of the Company's employees and third parties with whom the Company transacts with. Compliance with this code of conduct and the guidelines is cascaded to all employees by means of a comprehensive communication and training programmes, with designated local trusted representatives, set in place.

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

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

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

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

The Strategic Planning process is led by RFC Group and is focusing on long-term strategic direction of the Company, prioritizing future investments and resources.

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

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

- **Reporting and Review**

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

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

- **Financial Performance**

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

- **Assurance Compliance**

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

- **Internal Control Framework (ICF)**

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

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



- **Update on Developments**

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

INTERNAL AUDIT FUNCTION

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

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

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

ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

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

- The Board will be informed quarterly of the degree to which the Company's strategic, operational, financial and compliance objectives are being achieved;
- The internal and external financial reporting do not contain any material misstatement and that the risk management and internal control systems functioned effectively during 2018; and
- The Company has complied with the relevant legislation and regulations.

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

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3, issued by the Malaysian Institute of Accountants ("MIA").

AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Company.

Delicious Chocolicious



Limited Edition
New Variant



**BUILDING
STRONG FAMILIES
SINCE 1871**



Sustainability Report

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

This Sustainability Report was prepared in accordance with the guidelines set out in the Main Market Listing Requirements relating to Sustainability Statement in Annual Report of Listed Issuers ("Guidelines") issued by Bursa Malaysia Securities Berhad and covers the Company's business operations in Malaysia for the financial year ended 31 December 2018.



BOARD COMMITMENT & REPORTING FRAMEWORK

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

Board Commitment

As Board of Directors of Malaysia's largest dairy company, we are mindful of our responsibility towards sustainability issues as part of Dutch Lady Milk Industries Berhad's (Dutch Lady Malaysia) long-term strategic plans, and we are committed towards demonstrating and practicing responsible corporate conduct in our daily business activities across all aspects of our operations. The Board has the ultimate responsibility for the Company's Sustainability Report 2018 in partnership with Management and other stakeholders to deliver agreed goals.

Board of Directors

- Oversee sustainability performance
- Approve sustainability initiatives and budget

Management Team

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

Sustainability Team

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

Operating Divisions

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



SUSTAINABILITY DEVELOPMENT GOALS

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



SUSTAINABLE DEVELOPMENT GOALS



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

2 ZERO HUNGER
End hunger, achieve food security and improve nutrition, and promote sustainable agriculture

3 GOOD HEALTH AND WELL-BEING
Ensure healthy lives and promote well-being for all at all ages

7 AFFORDABLE AND CLEAN ENERGY
Ensure access to affordable, reliable, sustainable and modern energy for all

8 DECENT WORK AND ECONOMIC GROWTH
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Ensure sustainable consumption and production patterns

17 PARTNERSHIPS FOR THE GOALS
Strengthen the means of implementation and revitalise the global partnership for sustainable development

These six SDGs form the backbone of RFC Group’s sustainability principles. It also ensures Dutch Lady Malaysia’s competitive advantage in the marketplace and in building a long-term product brand value.

Sustainability Report

We do so by implementing the following framework:

FOCUS AREAS	ECONOMIC	ENVIRONMENTAL	SOCIAL
Strategic Goals	To strengthen innovation and operational efficiency to ensure food safety and towards a more balanced resource - efficient management	To adopt best practice solutions through innovative quality processes	To act as catalysts for boosting community development and support systems for long-term talent pipeline
Material Matters	<ul style="list-style-type: none"> • Right culture and shared values • Safety and health • Supply chain dynamics • Client-centric services • Value for shareholders 	<ul style="list-style-type: none"> • Environmental protection • Material efficiency • Energy and water consumption management • Waste, noise and effluent management 	<ul style="list-style-type: none"> • Equal employment and employee engagement • Talent development • Community services

SUSTAINABILITY GOVERNANCE FRAMEWORK

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

MATERIALITY ASSESSMENT

In order to achieve the Company's sustainability objectives, a comprehensive materiality assessment was conducted internally in 2018. This was gathered from the various classes of stakeholders as tabulated below:

Class of stakeholders	Low	Medium	High
Business Partners	<ul style="list-style-type: none"> • Supporting local suppliers • Protecting suppliers' rights 	<ul style="list-style-type: none"> • Anti-corruption • Anti-competition 	<ul style="list-style-type: none"> • Climate change • Occupational Safety and Health • Public safety
Customers	<ul style="list-style-type: none"> • Discrimination 	<ul style="list-style-type: none"> • Responsible marketing • Customer privacy • Quality assurance • Eco-friendly products 	<ul style="list-style-type: none"> • Economic and business performance • Customer satisfaction



Employees	<ul style="list-style-type: none"> Employee volunteerism Labour management Local hiring 	<ul style="list-style-type: none"> Diversity and equal opportunity Employee satisfaction 	<ul style="list-style-type: none"> Retaining employees Career development
Regulators	<ul style="list-style-type: none"> Community engagement 	<ul style="list-style-type: none"> Public policy Nation-building 	<ul style="list-style-type: none"> Waste and effluent management
Suppliers & Contractors	<ul style="list-style-type: none"> Benefits to local communities 	<ul style="list-style-type: none"> Sustainable procurement and performance 	
Shareholders & Analysts		<ul style="list-style-type: none"> Engagement with analysts, answering specific questions Investor presentations 	<ul style="list-style-type: none"> Stakeholder Engagement

Based on the materiality assessment outcome, the top 5 principal risks are identified below. The risk profile is assessed by the Management and Internal Audit teams periodically and presented to the Audit Committee quarterly. Please refer to the Corporate Governance statement - Risk Management and Internal Controls on page 70 for more details.

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

The following sections discuss the principle risks, as well the mitigation factors undertaken by the Company to meet the aforementioned challenges. It also discusses the various steps Dutch Lady Malaysia has undertaken in 2018 to meet our sustainability targets.

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



Sustainability Report



MARKETPLACE

BALANCED NUTRITION

As the world population continues to grow, so does the need for consistent and sustainable provision of quality nutrition to provide the right nutrients to our consumers. Our parent company, RFC has this as one of the four cornerstones of its own CSR priorities - to ensure sufficient nutritious food is available to help combat undernourishment and a shortage of nutrients.

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

- **Drink.Move.BeStrong Campaign**

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

- **DMBS Basketball programme**

Running on its fifth year, the DMBS campaign achieved yet another year of success. Dutch Lady Malaysia continued its basketball programme with the Jr NBA up to September 2018 which cemented its position as an effective platform to promote the importance of drinking milk and making it part of our nutritional intake and encouraging physical activity through sports like basketball. The programme was instrumental in helping to drive awareness among children, parents and teachers in encouraging living a healthier and more active lifestyle to combat the rise of non-communicable diseases ("NCDs") in Malaysia. The activities organised under the Jr NBA programme in 2018 saw further increase in the total participation compared to 2017, attracting more than 7,000 participants from all over Malaysia.

During the period of the programme, Dutch Lady Malaysia and Jr NBA, in partnership with the Ministry of Education ("MoE"), rolled out its training programme for Physical Education ("PE") school teachers.

The training programme reached more than 1,400 PE teachers in over 900 schools across 10 states in Malaysia including Johor, Kedah, Kelantan, Melaka, Negeri Sembilan, Pahang, Penang, Perak, Selangor, and Terengganu in 2018.



Sport has the ability to shape future generations, instilling positive values which complement the essential lessons provided within classrooms.

- MoE has supported Jr NBA and Dutch Lady Malaysia in their mission to promote living a healthy lifestyle through sport and nutrition since 2014.

Mehander Singh A/L Nahar Singh, Ph. D.,
Ministry of Education Malaysia Director of Sports Division



Students chosen to represent Malaysia in Shanghai for the DMBS basketball programme in 2018



During the workshops, the participants learnt and experienced a variety of fundamental basketball drills from the Jr NBA curriculum. Additionally, teachers received tools to encourage and facilitate participation among their students, including a coaching guide with curricula for in-school and after-school programmes, access to online resources on the Jr NBA website, and basic coaching equipment.

The PE programme allowed Dutch Lady Malaysia to leverage on this platform to tie in with our Drink.Move.Be Strong (DMBS) mission to promote the importance of getting proper nutrition and leading active lifestyles, amongst teachers who are responsible for the holistic development of our Malaysian youths.

- **Anugerah 3K & MyDMBS**

On its fourth year running, Anugerah 3K Drink.Move.BeStrong ("DMBS"), in partnership with the Ministry of Education ("MOE"), continues to advocate the benefits of living a healthy lifestyle to school children in Malaysia, as a means to address the growing problem of obesity; a non-communicable disease ("NCD") increasing amongst young children in the country. In 2018, the Anugerah 3K programme introduced MyDMBS to empower teams of students and teachers to take the lead in promoting healthy dietary and lifestyle practices in schools. MyDMBS encourages students to drink two glasses of milk a day and spend at least an hour performing physical activities outside the home or classroom.



Tarang Gupta, Managing Director participating in the activities at the Jr NBA opening ceremony



Anugerah 3K & MyDMBS Awards Ceremony

The 3K programme continued to maintain a high participation rate from schools in 2018, reaching over 200 schools and attracted more than 200,000 student participations as the year before in 2017. This demonstrates the effectiveness of the Anugerah 3K platform in helping school children in Malaysia adopt a healthier and more active lifestyle and an increased awareness of the goodness of dairy nutrition in their diet.

This strategic partnership with the MOE helped Dutch Lady Malaysia to fulfil its mission of nourishing Malaysians and to build a healthier future generation, in line with the three shifts in Malaysia's Education Blueprint.

Dutch Lady Malaysia has always taken the lead in championing causes related to nutrition and in raising awareness of the goodness of milk to build a stronger and healthier nation. With over 50 years of providing trusted dairy nutrition to Malaysians, it is important that as one of the largest dairy players in Malaysia, we want to continue fuelling our future generations with better nutrition.

In fact, at the 2018 3K awards ceremony, the Deputy Minister of Education Malaysia, YB Puan Teo Nie Ching commented that the 3K Awards are also strengthened by the My DMBS campaign, an initiative by Dutch Lady Malaysia in preventing the spread of non-communicable diseases (NCD) or better known as NCD among students. The success of this programme demonstrates how continuous efforts by the government, in partnership with private corporations like Dutch Lady Malaysia, can show significant results in transforming the youths of the country to embrace a more holistic and healthier lifestyle that is on track with the aspiration of the Malaysia Education Blueprint 2013-2025.

Sustainability Report



- **Nourishing children at Projek Perumahan Rakyat (PPR)**

In conjunction with the World School Milk Day 2018, Dutch Lady Milk Industries Berhad (Dutch Lady Malaysia) celebrated the annual event by pledging to give out 720,000 packs of milk to the primary school children of the Public Housing Projects (PPR Flats), with a majority of them coming from families below the poverty line.

The event was held at Sekolah Kebangsaan Seri Bonus in Kuala Lumpur, where trucks loaded with Dutch Lady Purefarm milk were flagged off to deliver the nutritious dairy beverage to 40 schools in Klang Valley to address the issue of acute malnourishment in school children from the housing projects identified by Dutch Lady Malaysia.

According to the 'Children Without' study released by the United Nations Children's Fund (UNICEF) Malaysia in February 2018, it was found that 22 per cent of PPR children below the age of five are stunted, 15 per cent are underweight, 20 per cent wasting (acute malnutrition), while 23 per cent are overweight or obese. Stunting or impaired growth, stemming from poor nutrition and inadequate psychological stimulation, can dramatically affect a child's cognitive abilities in later life.

Through the findings from the UNICEF Malaysia's study, in low cost flats across the Klang Valley, one in ten children enjoys less than three meals a day and more than 97 per cent of families at the PPR flats were not providing healthy and nutritious meals to their children as food was priced too high.

Dutch Lady Malaysia realised that these pockets of poverty need to be addressed to fill the nutritional gap that currently exists in Malaysia. Therefore, the Company made the decision to be the first organisation to actively close that nutritional gap to address the plight of the urban poor children - by providing delicious and nutritious milk to primary school children at the PPR Flats for the next 3 years.

The Company has always taken the lead in championing causes related to nutrition and in raising awareness of the goodness of milk to its consumers to help build stronger and healthier generations of Malaysians, now and for the future, while at the same time, "Building Strong Families."

This provides the opportunity to continue the Company's mission of "Nourishing a Nation" by bringing trusted dairy nutrition to the primary school children of the Public Housing Projects - PPR Flats in Kuala Lumpur.



I applaud and support this collaborative effort between Dutch Lady Malaysia and the Ministry of Education. It is a great example of how the private and public sector can work together to eliminate social issues, and in this case to address acute malnutrition among school children living at these PPR housing estates that are synonymous with low-income families and overcrowding

YB Puan Teo Nie Ching, Deputy Education Minister Malaysia



Tarang and YB Puan Teo Nie Ching, Deputy Education Minister Malaysia launching World School Milk Day 2018 with students from the Projek Perumahan Rakyat (PPR) - Public Housing Projects in Klang Valley



HALAL COMMITMENT

Dutch Lady Malaysia remains committed in providing Halal products to its consumers by putting in place various Halal monitoring tools and systems that sets out the Company's commitment to adhering to Jabatan Kemajuan Islam Malaysia's ("JAKIM") requirements. This covers the highest standards of hygiene, quality and safety conditions from the purchasing of raw material to distribution of our products. In fact, Dutch Lady Malaysia's Internal Halal Committee was established to undertake a collective responsibility towards ensuring the Company practices' adherence to the Halal Policy in alignment with JAKIM's requirements.

Over the last three years, the Company continued to increase efforts through its Internal Halal Committee by conducting Halal Showcase and Halal Week, with the purpose of engaging with internal employees on the importance of Halal in year 2018. Dutch Lady Malaysia was involved in the CEO roundtable dialogue with HDC, organised a farm visit for our related government stakeholders, and the company's managing director was a speaker at the World Halal Conference held in Kuala Lumpur last year. This participation helped strengthen the relationship between Dutch Lady Malaysia and its stakeholders.

The Company's commitment and efforts towards elevating Halal compliance and practices was recognised by JAKIM. This led to the Halal White List being awarded to Dutch Lady Malaysia in 2017 which we will continue to remain committed to for the future.

These achievements reflect that Dutch Lady Malaysia's Halal system and practices are well placed in preserving Halal integrity throughout the supply chain to serve and cater to the needs of Malaysian consumers.

COMMITMENT TO FOOD QUALITY AND SAFETY

Quality Assurance, Quality Control and meeting customers' requirements are prime considerations and these are achieved by the Company being FSSC 22000 certified. Ultimately, the aim of the Company is to deliver safe food to consumers, whilst demonstrating compliance with the prevailing laws and regulations. In addition, strong emphasis is also given to food safety with Good Manufacturing Practices and Hazard Analysis and Critical Control Point ("HACCP") System that cover all plants.

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

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

Dutch Lady Malaysia continues to enhance the safety and quality of our products and we successfully sustained an 'A' score rating for 3 consecutive years since 2016.

CORPORATE AND PERSONAL CONDUCT

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

Sustainability Report

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

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

RESPONSIBILITY TO SHAREHOLDERS AND INVESTORS

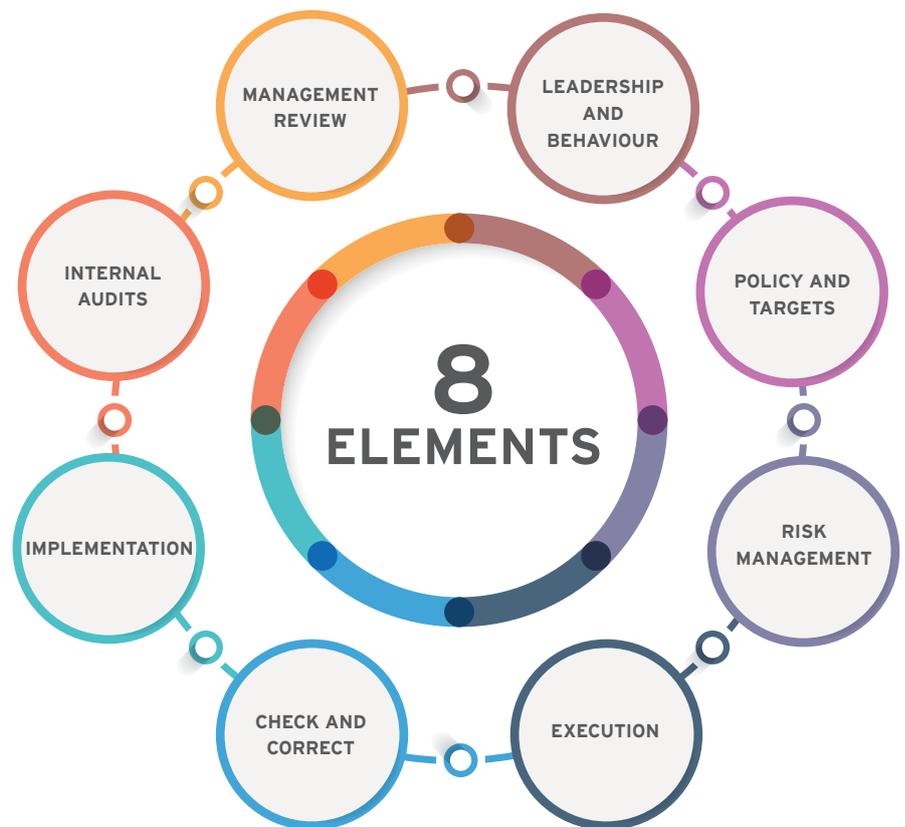
We recognise the importance of maintaining transparency and accountability to our shareholders and investors. In line with good governance practices, we place utmost importance on compliance, accountability and transparency in the disclosure of information to our stakeholders. We frequently engage research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

ENVIRONMENT

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

FoQus SHE is a Royal FrieslandCampina N.V. ("RFC") standard for Safety, Health and Environment to determine the maturity level of its management system and safety awareness in the Company. This standard consists of 4 levels (L1 Re-active, L2 Organizational, L3 Pro-active and L4 Generative) and 8 elements (refer to diagram).

This year, Dutch Lady Malaysia achieved a 3.2 score (out of score of 4) in the global RFC audit programme with improvement and commitment from management and all employees.





ENERGY WATER AND WASTE MANAGEMENT

Dutch Lady Malaysia started the energy and water sustainability road map in 2016. Despite the incremental volume in production, we achieved a reduction of 16% from our total energy usage in 2015. In 2018, the total energy ratio had reduced to 1.03 GJ/ton compared to the total ratio 1.22 GJ/ton in year 2015. This shows that Dutch Lady Malaysia has continued its commitment to reducing energy usage over the last four years from 1.22 in 2015, 1.19 in 2016, 1.12 in 2017 and 1.03 in 2018.

Dutch Lady Malaysia was awarded with a National Energy & Green Technology Award (NEGTA) in 2018 by the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC). This was after the Dutch Lady Malaysia installed a new Chiller System in 2016 and Powder Plant AHU (Air Handling Unit) as well as a Compressed Air Booster in 2017. Steam Accumulator was also installed in 2018. Despite reducing energy use, the Company also advocates the 4R Green Concept (Recycle, Rethink, Reduce and Reuse Waste, Water & Air Management) to promote a greener environment.

As part of the Company's manufacturing process, natural gas is heavily used in the plant. To ensure optimal and effective consumption of natural gas, the Operations team consistently monitors the running of the boiler system, which is already on an efficiently run Direct Control Combustion Control system. The efforts have resulted in a 3% reduction in the usage of natural gas for the Company.

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

SUSTAINABLE SOURCING

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

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

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

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

As members of Bonsucro, the global sugarcane sustainability platform (www.bonsucro.com), Dutch Lady Malaysia supports the sustainable production of sugar cane by purchasing 30% of our annual requirements in 2017 and increasing it to 50% in 2018 of sugar as Bonsucro certified. Through this, we demonstrate our commitment to sustainable production of sugar cane, consistent with the company's CSR Strategy of Nourishing by Nature.

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

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



Manufacturing process

Sustainability Report



COMMUNITY



SPREADING THE GOODNESS IN DAIRY

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

In celebration of the 2018 World Milk Day, Dutch Lady Malaysia commemorated the occasion by celebrating it at SK Dato' Onn Jaafar, located within Kompleks Sekolah Wawasan in Subang Jaya. It was also to share the goodness of milk with primary school pupils for Ramadan.

The event saw the flag off of Dutch Lady milk trucks, starting on their journey to deliver a total of 10,000 packs of milk to schools across Malaysia.

Dutch Lady Malaysia managing director Tarang Gupta said World Milk Day was significant to the company as it celebrates the important contributions of the dairy sector to sustainability, economic development, livelihoods and nutrition.

The annual World Milk Day celebrations provide the Company with the ideal opportunity to continue spreading the message of the importance of milk as part of a healthy and balanced diet.



Our mission has always been to nourish the nation for the past 55 years. Generations of Malaysians have grown up on Dutch Lady milk. This gives us even greater motivation to fuel the nation with better nutrition which milk can offer

Tarang Gupta, Managing Director, Dutch Lady Milk Industries Berhad



IMPROVING DAIRY SELF-SUFFICIENCY

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

In 2018, Dutch Lady Malaysia together with the Department of Veterinary Services increased its reach to 84 local farmers in six states: Kedah, Perak, Selangor, Negeri Sembilan, Melaka and Pahang where three Royal FrieslandCampina (RFC) co-operative Dutch farmers will spend two weeks in local farms in the six states to share best practices and exchange knowledge via the Farmer2Farmer (F2F) knowledge exchange programme.

F2F will focus on good farm management and administration (sustainability and profitability), good milking/handling practices, effective feed and nutritional





programme for cattle, monitoring methods, good breeding and fertility programme, with a particular focus on hygiene management and reducing the total plate count (bacteria count) in local milk.

The F2F programme is in line with the efforts by the Government to meet demand for locally produced milk to lessen Malaysia's dependency on imported milk and achieve self-sufficiency.

As a result of this knowledge exchange from F2F and the continuous support of DVS and the Netherlands Embassy, there have been significant improvements in the amount of milk supplied to Dutch Lady Malaysia over the last five years. Over this duration, Dutch Lady Malaysia, as the largest purchaser of local fresh milk in Malaysia, have been able to process over 21.0 million litres of liquid milk and produced over 85 million units of milk to feed Malaysian consumers.

The Director-General of the Department of Veterinary Services (DVS), Dato' Dr Quaza Nizamuddin bin Hassan Nizam said DVS has seen a lot of improvement with this programme. The sharing and transferring of dairy expertise and knowledge with local dairy farmers, creates shared values for sustainability in business innovation and expansion plans. And it opens the eyes of local farmers to new ways of dairy farming that will ultimately aid in increasing the quality and milk yield of our dairy farmers.

Dato' Dr Quaza further added that as part of the Government's call to grow this sector, we believe programmes like F2F can help improve the livelihood of dairy smallholders and ensure that Malaysia develops a sustainable local dairy industry that is able to support the demands of the country and be less dependent on imported raw dairy materials in the future.



The F2F programme has given me a lot of good guidance on the right procedures to follow for output of milk such as handling and using the right logistic systems.

The programme has also allowed us to utilise good operation disciplines for scheduled and random milk quality checking by leveraging Dutch Lady's established lab facilities. It helps us sleep better at night knowing that the milk we produce is of good quality before it is processed and marketed to the Malaysian consumers.

Encik Zakaria Abd Rahman, Managing Director, Redagri Farm Sdn Bhd commenting on how he has learnt to produce better quality milk through from his exposure through F2F initiative



Sustainability Report

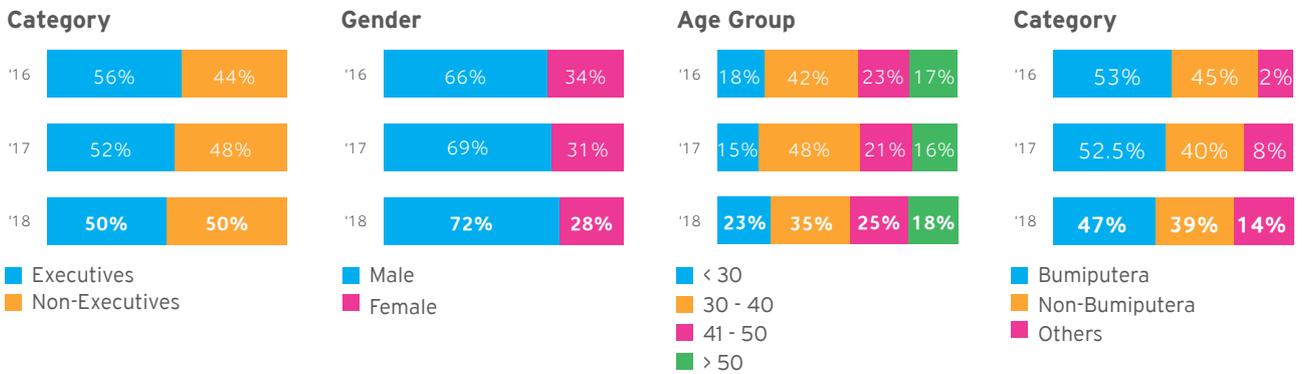
WORKPLACE

BEING THE NO.1 EMPLOYER IN DAIRY

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

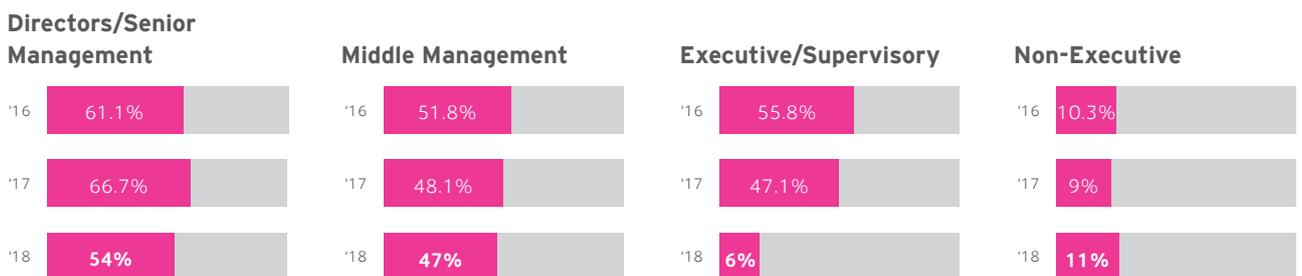
An overview of workforce statistics over the last 3 years:

Overview of workforce statistics



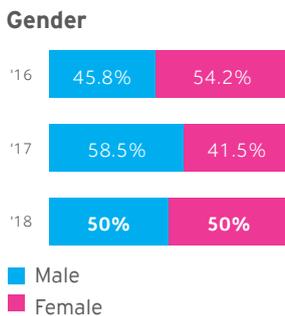
Dutch Lady Malaysia also aims to achieve a balanced participation between men and women in the workforce. Here is an overview of women in management and workforce:

Women in Management



Overview of new hires by gender:

New Hires





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

In 2018, a new corporate culture was introduced to encourage employees to win in the market and to reach our ambitions set in Our Purpose, Our Plan and why we have to go the extra mile to achieve our goals. The purpose is for the organisation and the employees to build and embed a winning performance culture through WIN-WIN. WIN-WIN is our way of working within FrieslandCampina N.V. Our WIN-WIN mindset and behaviours consist of three core building blocks, Purpose-Driven, Commercially-Obsessed and possessing an Owners' Mindset; each with three challenges all aiming for the same goal of Winning in the Market.

All employees were encouraged to compete in the monthly WIN-WIN competition to demonstrate how they are living up to the WIN-WIN values. Winners were recognised for their exemplary efforts at monthly townhalls and rewarded for their efforts by the Management Team. This created opportunity for employees to showcase their talent and dedication to their work.

EMPLOYEE ENGAGEMENT

We ensure that an open two-way communication channel is made available to all employees through various initiatives. Town hall meetings are held monthly at the corporate office and quarterly at the factory is one of the many platforms, to provide employees with business-related updates and to facilitate better understanding of the Company's objectives and direction. In addition, senior executives continuously engage with employees through workshops, to enhance cross-functional alignment in the execution of the Company's strategies and plans. The Management Team also meets regularly at skip-level meetings, MD Breakfast Chats with junior employees to facilitate understanding of the Company's business objectives, which also serves as a platform for valuable feedback to further enhance engagement within the organisation. In 2018, Dutch Lady Malaysia rolled out quarterly employee surveys such as the WIN-WIN Survey and the RFC employee survey, Over2You to gauge the transformation impact, mindset and behaviour.



Monthly town halls

Employees have access to a shared portal on the Intranet, where they can gain latest information on the Company and the RFC Group, as well as obtain necessary documents and schedules. Plant managers at the Operations Division have Daily Report Meetings every morning to keep each other informed of updates and relevant information.

Coherent with the Company's mission and to emphasise the spirit of winning together as a family, various activities have been carried out in 2018. Amongst others, The Perfect Attendance award was conducted to appreciate and recognise our factory employees who have consistently demonstrated their commitment in performing their job through excellent attendance record. Dutch Lady Malaysia also organised various sports activities throughout the year. Employee engagement initiatives were extended not only to employees, but also to their family members e.g. during World Milk Day, where employees are encouraged to participate in Company contests to win rewards to be enjoyed with their family and friends. This gave employees a sense of belonging and connection to the Company.

Sustainability Report

And in continuation of our support for educational excellence, an Education Excellence Award was presented to children of employees who have shown commendable excellence in their examinations. In 2018, there were a total of 11 Education Excellence Award recipients, who were recognised by Dutch Lady Malaysia for their outstanding performance in their examinations.



SAFETY REMAINS OUR NO 1 PRIORITY

We are committed in ensuring a safe environment for our employees, contractors and visitors who work on-site through our demonstration of 'safe work' practices. In 2018, intense efforts were established to develop a safety culture through many initiatives to encourage behaviour of keeping everyone safe, whilst working within the premises of the factory and the corporate office. We had achieved 0.18 in Total Recordable Frequency Rate (TRFR) versus the yearly target of 0.72. This was attributed to a total of two recordable incidences that have been reported in 2018. In fact, the total first aid cases were also reduced from 3 cases (year 2017) to 2 cases (year 2018).

YEAR	NO. OF INCIDENTS	NO. OF FATAL ACCIDENTS
2018	2 Cases	0
2017	3 cases	0
2016	7 cases	0

Incidences were reduced using these efforts:

1. Safety Leadership and Commitment - The management and leadership teams provide its safety chat/content either daily or before any key meetings or daily review. Leaders also provide weekly/monthly safety dialogues through Process Confirmation and Worksite Safety Inspections.
2. Managing Rule Breaking - Cardinal Rules is established to ensure everyone understand and follow the rules to protect them from injury.
3. Behaviour Observation and Unsafe Condition Reporting - Our employees are also encouraged to actively report and mitigate the risk of unsafe conditions through safety behaviour observation. We received a total of 289 safety interventions and 517 'near-misses' reports from people in Operations.

The Company also focused in Process Safety and Technical Safety. Several assessments have been completed for:

1. Machine Safety Assessment and gap closure - 216 machines have been assessed and 45 machines guarding were installed. 44 LOTOTO (Lock-Out/Tag-Out/Try-Out) special devices have been despatched out to ensure all machines and connections are LOTOTO proof.
2. ATEX (ATmospheres Exposable) - assessments were completed in all areas with dust exposure such MLR Dumping and Powder Plant - risk and corrective/preventive actions were identified and executed.
3. HAZOP (Hazard and Operability) assessment - have been completed for CIP (Clean-in-Place) processes to ensure all piping and process is safe to use.

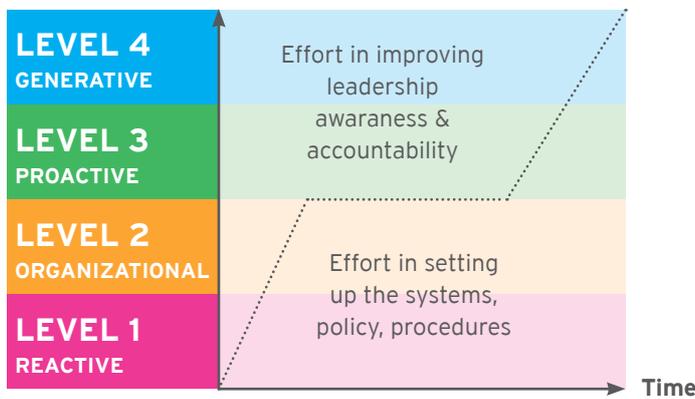


Dutch Lady Malaysia extended the Safety Week to monthly activities to further promote Safety, Health, Environment and Sustainability. A total of 30 programmes were promoted such as Defensive Driving, Talk Eye Screening, Hearing Conservation, Health Screening, Blood Donation, SEDAR (Search and Destroy Aedes Ranger), So-HELP programme to DOSH, Ergonomic Sharing, Chemical Safety, Hand Injury Preventive Talk, PPE (Personal Protective Equipment) Introduction, Kitchen Safety Awareness, LOTOTO Awareness, ISO14001 (2015) Awareness and preparation, Table Tennis Tournament and Fruit Days.

Last but not least, Dutch Lady Malaysia achieved 3.2 score in the global RFC Foqus SHE audit programme (new requirement) to determine the maturity level of the company's management system and safety awareness in Pro-active level.

Safety Development Curve/Journey

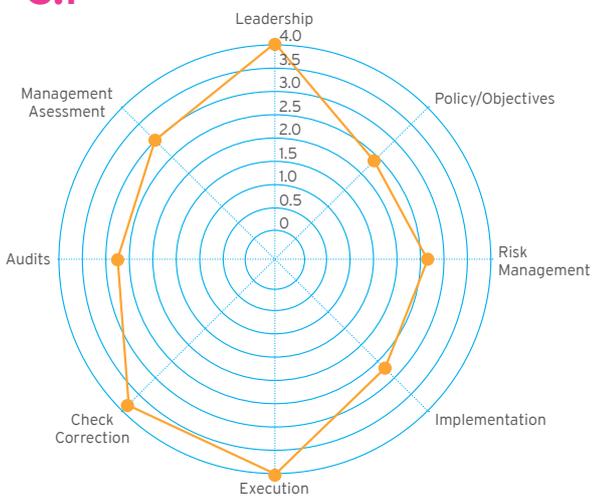
Level of Development



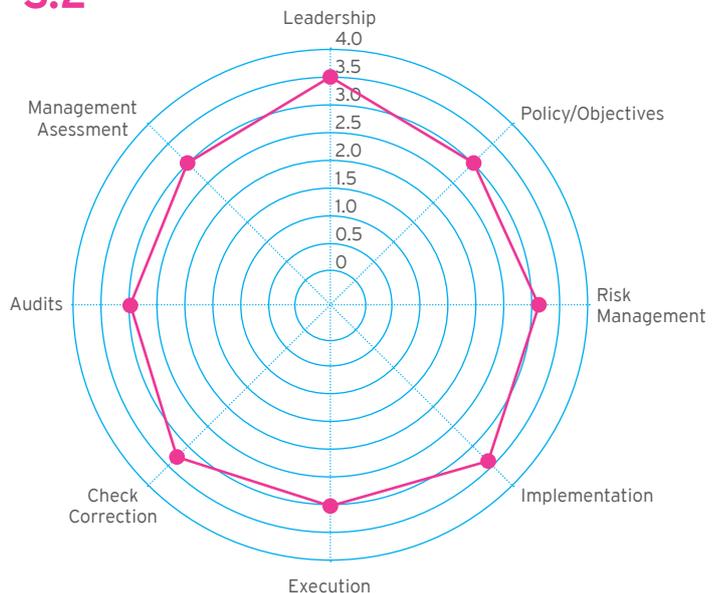
- The SHE (and fire safety) system is an integral part of the business operations, operates fully and SHE (and fire safety) has top priority. The policy is based on a clear strategy and vision and is aimed at prevention.
- - Actions go beyond the statutory requirements and are based on continuous improvement.
 - SHE (and fire safety) responsibility lies in the line organisation.
- - Primary requirements of ISO 14001, OHSAS 18001 and FOCUS.
 - Improvement actions are being implemented.
 - Actions are still carried out by SHE (and fire safety) professionals.
- Primary statutory obligations are met.

Total of the 8 principles

2017
3.1



2018
3.2



Sustainability Report

TRAINING & DEVELOPMENT

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

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

Our local employees have been selected to participate in the Friesland Campina Nourishing Leadership, Academic Potential, Future Leader, and Learn to Grow Programmes, enabling them an opportunity to grow within the RFC Group and develop into the next class of high potential leaders, within the organisation. The employees of Dutch Lady Malaysia that participated in these leadership programmes have been placed on either short or long term assignments in RFC Group's global offices. We also offered some key common functional training.

We are dedicated in investing towards the growth and development of our employees. Dutch Lady Malaysia obtained a total of 633 training man-days from 23 training programmes completed by our employees throughout 2018. The training programmes were accomplished by employees at all job grade levels, including unionised employees. We had also established a set of compulsory syllabus for all new employees to learn and adapt, in order to ensure a seamless assimilation into our working culture. This was an impetus for us to strive for greater achievements and continuously building our talent pool.

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

YEAR	TOTAL TRAINING HOURS FOR EXECUTIVES (JG10 AND ABOVE)	TOTAL TRAINING HOURS FOR NON-EXECUTIVES (BELOW JG10)
2018	3,536	2,944
2017	4,124	1,604
2016	3,349	2,053

NURTURING TALENT

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

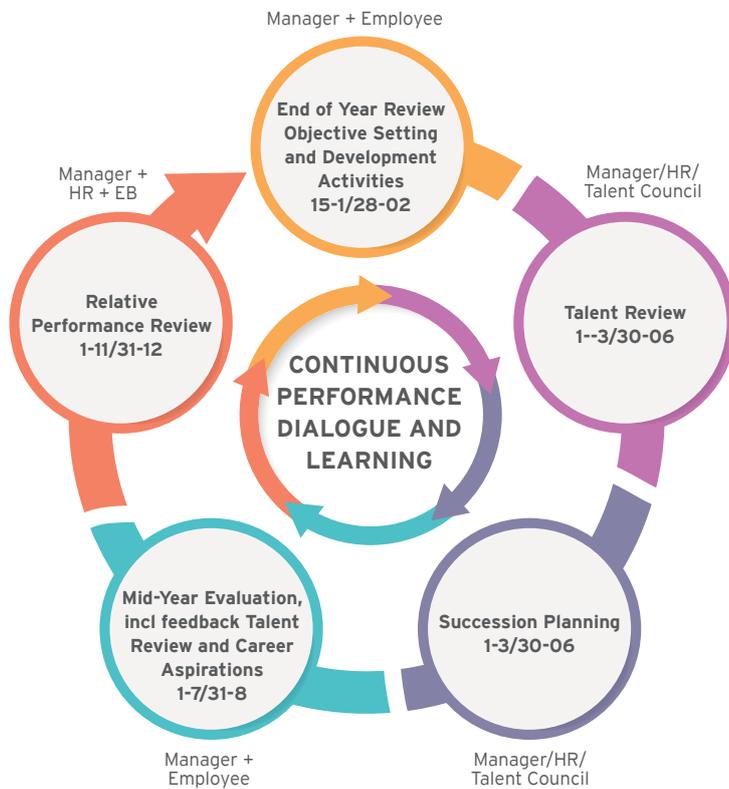
Our business environment and commercial demands are constantly evolving, therefore our ability as an organisation to adapt, achieve and stay ahead of the game, is influenced by the development and growth of all our people.

In 2015, FrieslandCampina introduced the Global Talent Management Cycle in line with the Performance Management framework. The processes within the cycle have been 'e-enabled' through its Talent and Learning Management system used by RFC worldwide as a platform that offers support in all talent, performance and learning activities for employees worldwide.

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



Global Talent Management Cycle



Every year, Dutch Lady Malaysia actively participates in major career fairs across Malaysia such as Malaysian Career and Training Fairs by Jobstreet and M100 by GTI Media to remain attractive and be the Employer of Choice in the dairy sector for potential applicants. In 2018, Dutch Lady Malaysia was again voted the Best Booth at the Malaysian Career & Training Fairs for its strong branding presence and identity. The achievements by the Company were both recognised by the industry as well as graduates from local and international academic institutions.

Dutch Lady Malaysia was awarded the “Fastest Moving” Company among the Top 100 Employers in Malaysia and climbed the ranking to 2nd Runner Up within the Top 3 FMCG Companies. The Company further validated its strong employer branding and presence at Universities and Colleges’ recruitment after winning “The Graduates’ Choice Award.” This award has the highest distinction and recognition given to outstanding organisations demonstrating exceptional employer branding in Universities across Malaysia, voted for by Undergraduates nationwide.



Education Excellence Award

In early 2018, Dutch Lady Malaysia was awarded the Best Career website by Human Resource Asia Recruitment Awards 2018. Our career website reflected a comprehensive corporate branding strategy generating visibility and attracted a significant number of page views which help play an important role in the success of the organisation in sourcing and attracting talent.

Each year, Dutch Lady Malaysia honours its employees’ children who excelled in their local exams through our Education Excellence Award. In 2018 we had focused on the Purpose Driven and Commercially obsessed values by organising the event at McDonalds (our partner’s premises). Activities planned were Augmented Reality (Avengers) and Disney Colour Play Apps play. Their parents were thankful to DLMI for honouring their children which motivates them to achieve better in the coming years. The children also thanked their parents for the encouragement and support given to them. Overall, it was a huge WIN where everyone felt appreciated.



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JUNGHEINRICH

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Putting Safety First

A safe environment for our employees, contractors and visitors is never compromised in our Company. We are totally committed to developing a strong and safe work culture. Adopting the most stringent processes and standards of hygiene, quality, safety and sanitary conditions throughout our manufacturing and product distribution chain is a paramount priority. Everyone in this Company is responsible for safety.



Directors' Report

for the year ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

RESULTS

	RM'000
Net profit for the year	129,449

RESERVES AND PROVISIONS

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

DIVIDENDS

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

- (i) a first interim ordinary dividend of 50.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM32,000,000 in respect of the financial year ended 31 December 2018 on 25 May 2018;
- (ii) a first special interim ordinary dividend of 60.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM38,400,000 in respect of the financial year ended 31 December 2018 on 25 May 2018;
- (iii) a second interim ordinary dividend of 50.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM32,000,000 in respect of the financial year ended 31 December 2018 on 21 December 2018; and
- (iv) a second special interim ordinary dividend of 40.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM25,600,000 in respect of the financial year ended 31 December 2018 on 21 December 2018.

The Directors do not recommend any final dividend to be paid for the financial year ended 31 December 2018.

DIRECTORS OF THE COMPANY

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

Dato' Zainal Abidin bin Putih
Boey Tak Kong
Saw Chooi Lee
Bernardus Hermannus Maria Kodden
Tarang Gupta
Dato' Dr Rosini Alias (appointed on 16 March 2018)
Tengku Nurul Azian Tengku Shahrman (appointed on 25 June 2018)
Jurgen Sandmann (appointed on 25 June 2018)
Datin Seri Sunita Mei-Lin Rajakumar (appointed on 27 February 2019)
Dato' Dr Mhd Nordin bin Mohd. Nor (resigned on 16 March 2018)
Foo Swee Leng (resigned on 26 April 2018)

DIRECTORS OF THE COMPANY (CONTINUED)

In accordance with Article 93(a) of the Company's Constitution, Ms. Saw Chooi Lee, Mr. Bernardus Hermannus and Mr. Tarang Gupta shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Constitution, Tengku Nurul Azian binti Tengku Shahrman, Mr. Jurgen Clemens Johannes Sandmann and Datin Seri Sunita Mei-Lin Rajakumar who were appointed since the date of the last report, shall retire at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-election.

Dato' Zainal Abidin bin Putih has served as an Independent Non-Executive Director of the Company for cumulative term of more than nine (9) years. The Board has assessed and concluded that Dato' Zainal Abidin bin Putih has fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and thus he would be able to function as check and balance and brings with them an element of objectivity to the Board. As such, approval will be sought at the forthcoming Annual General Meeting of the Company for Dato' Zainal Abidin Bin Putih, to continue to act as an Independent Non-Executive Director of the Company.

DIRECTORS' INTERESTS IN SHARES

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

DIRECTORS' BENEFITS

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

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

DIRECTORS' REMUNERATION

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

INSURANCE EFFECTED FOR DIRECTORS

During the financial year, the total amount of insurance effected for Directors of the Company is RM7,298.

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.

Directors' Report

for the year ended 31 December 2018

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the respective financial statements misleading.

In the opinion of the Directors:

- (i) the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

HOLDING COMPANIES

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

AUDITORS' REMUNERATION

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

AUDITORS

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

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

.....

Tarang Gupta

Petaling Jaya
27 February 2019

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Jurgen Sandmann

Statement of Financial Position

as at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Property, plant and equipment	3	122,297	100,799
Intangible assets	4	2,956	4,678
Total non-current assets		125,253	105,477
Inventories	5	131,050	115,839
Trade and other receivables	6	112,381	106,730
Prepayments		3,819	2,873
Cash and bank balances	7	32,109	61,339
Derivative financial assets	12	190	-
Total current assets		279,549	286,781
Total assets		404,802	392,258
Equity			
Share capital	8	64,000	64,000
Retained earnings		41,459	40,010
Total equity		105,459	104,010
Liabilities			
Deferred tax liabilities	9	6,539	6,608
Total non-current liability		6,539	6,608
Trade and other payables	10	266,388	270,306
Provision	11	191	178
Current tax liabilities		9,994	7,975
Bank overdraft	7	15,172	-
Derivative financial liabilities	12	1,059	3,181
Total current liabilities		292,804	281,640
Total liabilities		299,343	288,248
Total equity and liabilities		404,802	392,258

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Revenue from contracts with customers			
- sales of goods recognised point in time		1,048,568	1,064,536
Cost of sales		(632,317)	(663,372)
Gross profit		416,251	401,164
Other income		10,494	-
Distribution expenses		(162,522)	(149,930)
Administrative expenses		(28,764)	(27,389)
Other expenses		(61,594)	(66,440)
Results from operating activities		173,865	157,405
Interest income		858	3,109
Finance costs		(3,431)	(2,995)
Profit before tax	13	171,292	157,519
Tax expense	15	(41,843)	(39,802)
Net profit for the year/Total comprehensive income for the year		129,449	117,717
Basic and diluted earnings per ordinary share (sen)	16	202.3	183.9

Statement of Changes in Equity

for the year ended 31 December 2018

	Note	Share capital RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2017		64,000	101,493	165,493
Net profit/Total comprehensive income for the year		-	117,717	117,717
Dividends to owners of the Company	17	-	(179,200)	(179,200)
At 31 December 2017/1 January 2018		64,000	40,010	104,010
Net profit/Total comprehensive income for the year		-	129,449	129,449
Dividends to owners of the Company	17	-	(128,000)	(128,000)
At 31 December 2018		64,000	41,459	105,459

Note 8

Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Cash receipts from customers and other receivables		1,057,103	1,047,700
Cash paid to suppliers and employees		(896,760)	(959,633)
Cash generated from operations		160,343	88,067
Income tax paid		(39,893)	(44,981)
Net cash from operating activities		120,450	43,086
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(34,263)	(15,683)
Purchase of intangible assets	4	(15)	(597)
Interest received		857	3,109
Net cash used in investing activities		(33,421)	(13,171)
Cash flows from financing activities			
Interest paid		(3,431)	(2,995)
Dividends paid	17	(128,000)	(179,200)
Net cash used in financing activities		(131,431)	(182,195)
Net decrease in cash and cash equivalents		(44,402)	(152,280)
Cash and cash equivalents at 1 January		61,339	213,619
Cash and cash equivalents at 31 December	7	16,937	61,339

Note to the statement of cash flows

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

Notes to the Financial Statements

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

Principal place of business/Registered office

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

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

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

These financial statements were authorised for issue by the Board of Directors on 27 February 2019.

1. BASIS OF PREPARATION

(a) Statement of compliance

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

The financial statements have been prepared under the historical cost convention, as modified by the fair value through other comprehensive income financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Company has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2018:

- MFRS 9, *Financial Instruments*

The Company applied MFRS 9 'Financial Instruments' for the first time in the 2018 financial statements with the date of initial application of 1 January 2018. The standard is applied retrospectively.

In accordance with the transitional provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were immaterial and hence no adjustment was made to the opening balance of retained earnings as at 1 January 2018.

The detailed impact of the change in accounting policy on financial instruments is disclosed in Note 19.4 under Changes to Loss Allowance.

- MFRS 15, *Revenue from Contracts with Customer*

The Company applied MFRS 15 for the first time in the 2018 financial statements with the date of initial application of 1 January 2018 by using the modified retrospective transition method.

Under the modified retrospective transition method, the Company applies the new MFRS 15 policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated. The cumulative effects of initial application of MFRS 15 were immaterial and hence no adjustment was made to the opening balance of retained earnings as at 1 January 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118.

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

- MFRS 15, *Revenue from Contracts with Customer* (continued)

The detailed impact of the change in accounting policy on revenue is disclosed in Note 2(k).

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2019

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

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

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

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

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

The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on the assessments taken to date, the Company will need to recognise a right-of-use assets of RM4 million and a corresponding lease liability of RM4 million in respect of land and buildings and plant and equipment.

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

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

IC Interpretation 23 will be applied retrospectively. The adoption of this interpretation is not expected to have a significant effect on the financial statements of the Company.

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

The amendments shall be applied retrospectively. The adoption of the amendments is not expected to have a significant effect on the financial statements of the Company.

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

(i) Trade spend accruals

Trade spend accruals of RM24.9 million (2017 RM49.2 million), which consists primarily of trade rebates and promotional discounts, are based on agreed trading terms and promotional activities with trade customers and distributors. Trade spend accruals are recognised under the terms of these agreements, to reflect the expected rebates, promotional activities and historical experience. These accruals are reported within Trade and Other Payables under Trade Payables (Note 10). The estimates for these accruals are regularly reviewed by senior management of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency transactions

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments

Applicable for financial instruments prior to 1 Jan 2018.

(i) Initial recognition and measurement

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

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

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

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

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

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

(b) Loans and receivables

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

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

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

Financial liabilities

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(iii) Derecognition

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

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

(iv) Offsetting financial instruments

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

With the adoption of MFRS 9, the new accounting policy effective 1 Jan 2018 is laid out below.

Investments and other financial assets

Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss),
- and those to be measured at amortised cost.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Initial Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Subsequent measurement

(i) Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company has the following debt instrument that is subject to the ECL model:

- Trade receivables
- Other receivables
- Intercompany receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Impairment (continued)

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For trade receivables, the Company applies the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables and non-trade intercompany receivables, the Company applies the general three-stage approach to determine the ECL.

Note 19 sets out the measurement details of ECL.

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

(iii) Depreciation

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

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

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

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

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

(d) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Intangible assets

(i) Computer software

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

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

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

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

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

(f) Inventories

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

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

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

(g) Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows. In the statement of financial position, banks overdrafts are shown in current liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of non-current assets

The carrying amounts of non-current assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

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

(i) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

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

(j) 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue from contracts with customers and other income

Revenue from contracts with customers

(i) Goods sold

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

With the adoption of MFRS 15, revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the control of goods have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Accounting for customer loyalty programme

Under MFRS 15, the total consideration is allocated to the points and goods sold based on the relative stand-alone selling prices. Using this method, a contractual liability is recognised in relation to the customer loyalty programme amounting to RM369,000 and a corresponding reduction of the sales revenue in the income statement. No significant changes to estimation techniques or assumptions were made during the reporting period.

(iii) Accounting for refunds

The Company is obliged to refund the purchase price of the product sold in situations where the customer has a contractual right to return the product within a given period. In the 2017 comparatives, the Company recognised a 'provision' for returns which was measured on a net basis at the margin on the sale and the corresponding entry to revenue.

Under MFRS 15, a refund liability for the expected refunds to customers is recognised as an adjustment to revenue and classified as part of the 'trade and other payable' balances.

During the year, the Company extended its non-return allowance to a majority of its general trade distributors. The non-return allowance is recognised as a reduction of revenue in trade and adjustments to receivables. Unutilised refund liability associated with the above mentioned customers are released where non-return allowance applied.

Other income

(i) Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income.

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

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

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

(m) Earnings per ordinary share

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

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

(n) Operating segments

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

(o) Fair value measurements

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

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

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold Land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and equipment RM'000	Capital work-in progress RM'000	Total RM'000
Cost								
At 1 January 2017		5,639	65,358	116,369	997	17,903	19,394	225,660
Additions		-	-	-	-	-	15,683	15,683
Written off		-	-	(3,234)	-	(1,502)	-	(4,736)
Transfers		-	-	3,379	-	2,125	(5,504)	-
Transfer from intangible assets	4	-	-	-	-	81	-	81
At 31 December 2017/ 1 January 2018		5,639	65,358	116,514	997	18,607	29,573	236,688
Additions		-	-	-	-	-	34,263	34,263
Written off		-	-	-	(333)	-	-	(333)
Transfers		-	1,104	12,276	-	13,512	(26,892)	-
Transfer from intangible assets	4	-	-	-	-	179	-	179
At 31 December 2018		5,639	66,462	128,790	664	32,298	36,944	270,797

Depreciation and impairment loss

At 31 December 2016/
1 January 2017

Accumulated depreciation	2,459	34,962	71,327	565	11,370	-	120,683
Accumulated impairment loss	-	-	2,427	-	-	6,893	9,320
	2,459	34,962	73,754	565	11,370	6,893	130,003

Depreciation for the year

Written off

At 31 December 2017/
1 January 2018

Accumulated depreciation	2,534	37,998	73,549	706	11,782	-	126,569
Accumulated impairment loss	-	-	2,427	-	-	6,893	9,320
	2,534	37,998	75,976	706	11,782	6,893	135,889

Depreciation for the year

Written off

At 31 December 2018

Accumulated depreciation	2,609	41,050	79,566	561	15,394	-	139,180
Accumulated impairment loss	-	-	2,427	-	-	6,893	9,320
	2,609	41,050	81,993	561	15,394	6,893	148,500

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Leasehold Land RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Furniture and equipment RM'000	Capital work-in progress RM'000	Total RM'000
Carrying amounts								
At 31 December 2017		3,105	27,360	40,538	291	6,825	22,680	100,799
At 31 December 2018		3,030	25,412	46,797	103	16,904	30,051	122,297

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 RM68,049,897 (2017: RM55,830,000).

3.2 Leasehold land relates to the lease of land with unexpired lease period of less than 50 years for the Company's factory buildings, office complex and warehouse located in Petaling Jaya. The lease will expire in 2059 and the Company does not have an option to purchase the leased land at the expiry of the lease period. Leasehold land are amortised over the lease term of the land.

Notes to the Financial Statements

4. INTANGIBLE ASSETS

	Note	Computer software RM'000	Capital work-in progress RM'000	Total RM'000
Cost				
At 1 January 2017		15,890	115	16,005
Additions		-	597	597
Transfer to property, plant and equipment	3	-	(81)	(81)
At 31 December 2017/1 January 2018		15,890	631	16,521
Additions		-	15	15
Transfers		432	(432)	-
Transfer to property, plant and equipment	3	-	(179)	(179)
At 31 December 2018		16,322	35	16,357
Amortisation				
At 1 January 2017				
Accumulated amortisation		10,198	-	10,198
Amortisation for the year		1,645	-	1,645
At 31 December 2017/1 January 2018				
Accumulated amortisation		11,843	-	11,843
Amortisation for the year		1,558	-	1,558
At 31 December 2018				
Accumulated amortisation		13,401	-	13,401
Carrying amounts				
At 31 December 2017		4,047	631	4,678
At 31 December 2018		2,921	35	2,956

5. INVENTORIES

	2018 RM'000	2017 RM'000
At cost:		
Finished goods	66,481	34,131
Raw materials	49,712	75,084
Packaging materials	13,932	5,964
Spare parts	925	660
	131,050	115,839
Recognised in profit or loss:		
Inventories recognised as cost of sales	590,927	552,024
Provision/(Reversal of provision) for obsolescence of inventories, included in cost of sales	1,038	(2,830)

6. TRADE AND OTHER RECEIVABLES

	Note	2018 RM'000	2017 RM'000
Trade			
Trade receivables		99,974	97,193
Less: Loss allowance		(4,519)	(3,953)
Net trade receivables		95,455	93,240
Amounts owing by related companies	6.1	9,732	4,120
		105,187	97,360
Non-trade			
Other receivables		5,160	6,410
Deposits		2,034	2,960
		7,194	9,370
		112,381	106,730

6.1 The amounts owing by related companies are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

7. CASH AND BANK BALANCES

	2018 RM'000	2017 RM'000
Cash and cash at bank	32,109	24,839
Deposits placed with licensed banks	-	36,500
Cash and bank balances	32,109	61,339

The deposits placed with licensed banks in 2017 bear an average interest of 3.58% per annum and have maturity periods ranging from 4 to 92 days.

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

(a) Cash and cash equivalents comprise:

	2018 RM'000	2017 RM'000
Cash and bank balances	32,109	61,339
Bank overdraft	(15,172)	-
	16,937	61,339

Bank overdraft is unsecured and bears interest rate at the rate of 2.31% (2017: NIL) per annum.

8. SHARE CAPITAL

	Amount 2018 RM'000	Number of shares 2018 '000	Amount 2017 RM'000	Number of shares 2017 '000
Ordinary shares of RM 1 each:				
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.

9. DEFERRED TAX LIABILITIES

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment	-	-	(8,533)	(8,239)	(8,533)	(8,239)
Inventories	414	165	-	-	414	165
Receivables	149	8	-	-	149	8
Provisions	1,325	812	-	-	1,325	812
Payables	-	-	(103)	(117)	(103)	(117)
Other items	209	763	-	-	209	763
Tax assets/(liabilities)	2,097	1,748	(8,636)	(8,356)	(6,539)	(6,608)

Movement in temporary differences during the year

	At 1.1.2017 RM'000	Recognised in profit or loss RM'000	At 31.12.2017/ 1.1.2018 RM'000	Recognised in profit or loss RM'000	At 31.12.2018 RM'000
Property, plant and equipment	(9,388)	1,149	(8,239)	(294)	(8,533)
Inventories	845	(680)	165	249	414
Receivables	-	8	8	141	149
Accrued expenses	1,361	(1,361)	-	-	-
Provisions	37	775	812	513	1,325
Payables	-	(117)	(117)	14	(103)
Other items	187	576	763	(554)	209
	(6,958)	350	(6,608)	69	(6,539)

Note 15

Note 15

Notes to the Financial Statements

10. TRADE AND OTHER PAYABLES

	Note	2018 RM'000	2017 RM'000
Trade			
Amounts owing to related companies	10.1	64,777	48,595
Trade payables		144,865	158,331
		209,642	206,926
Non-trade			
Amounts owing to related companies	10.1	16,193	24,616
Accrued expenses		39,489	37,721
Other payables		1,064	1,043
		56,746	63,380
		266,388	270,306

10.1 The amounts owing to related companies are unsecured, interest free and repayable on demand.

10.2 Included in Trade Payable is an amount of RM369,000 (2017: NIL) contract liability in respect of the customer loyalty redemption points.

11. PROVISION

	Employees' pension contribution	
	2018 RM'000	2017 RM'000
At 1 January	178	155
Addition during the year	13	30
Utilised during the year	-	(7)
At 31 December	191	178

Employees' pension contribution

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

12. DERIVATIVE FINANCIAL LIABILITIES

	2018			2017		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss						
- Forward exchange contracts	120,132	190	(1,059)	76,031	-	(3,181)

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

13. PROFIT BEFORE TAX

	2018 RM'000	2017 RM'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of intangible assets	1,558	1,645
Auditors' remuneration:		
- Statutory audit - current year	105	130
- Statutory audit - prior year	-	10
- Other services	20	20
Depreciation of property, plant and equipment	12,806	10,590
Finance cost	3,431	2,995
Net loss/(gain) on derivatives	(2,311)	3,110
Net loss/(gain) on foreign exchange:		
- Realised	(2,705)	4,190
- Unrealised	(375)	(455)
Operating lease rental in respect of:		
- Premises	1,946	2,059
- Equipment	4,549	5,197
- Vehicles	564	970
Personnel expenses (including key management personnel):		
- Wages, salaries and others	50,545	52,747
- Contributions to state plans	8,385	7,748
Provision/(Reversal of provision)/for obsolescence off inventories	1,038	(2,830)
Write off of property, plant and equipment	138	32

Notes to the Financial Statements

14. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	2018 RM'000	2017 RM'000
Directors:		
- Fees	350	276
- Remuneration	1,136	1,941
- Compensation of loss of office	-	1,796
- Benefits-in-kind	401	178
	1,887	4,191
Other key management personnel:		
- Wages, salaries and others	3,318	3,433
- Contributions to state plans	365	246
	3,683	3,679
	5,570	7,870

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

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

15. TAX EXPENSE**Recognised in profit or loss**

	Note	2018 RM'000	2017 RM'000
Current tax expense			
- current year		42,353	40,152
- over provision in prior year		(441)	-
		41,912	40,152
Deferred tax expense			
Origination and reversal of temporary differences	9	(69)	(350)
Total income tax expense		41,843	39,802

	2018 RM'000	2017 RM'000
Reconciliation of tax expense		
Profit before tax	171,292	157,519
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	41,110	37,805
Non-deductible expenses	2,124	2,048
Income not subject to tax	(950)	(51)
Over provision in prior year	(441)	-
	41,843	39,802

Notes to the Financial Statements

16. EARNINGS PER ORDINARY SHARE

Basic and diluted earnings per ordinary share

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

	2018	2017
Net profit for the year (RM'000)	129,449	117,717
Average number of ordinary shares of RM1 each in issue ('000)	64,000	64,000
Basic and diluted earnings per ordinary share (sen)	202.3	183.9

There are no potential dilutive ordinary shares in issue as at 31 December 2018 and 2017, and therefore, diluted earnings per share equal basic earnings per share.

17. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2018			
Single tier first interim 2018 ordinary	50.00	32,000	25.05.2018
Single tier first special interim 2018 ordinary	60.00	38,400	25.05.2018
Single tier second interim 2018 ordinary	50.00	32,000	21.12.2018
Single tier second special interim 2018 ordinary	40.00	25,600	21.12.2018
Total amount		128,000	
2017			
Single tier first interim 2017 ordinary	50.00	32,000	21.04.2017
Single tier first special interim 2017 ordinary	60.00	38,400	21.04.2017
One-time interim 2017 extraordinary	60.00	38,400	31.05.2017
Single tier second interim 2017 ordinary	50.00	32,000	27.12.2017
Single tier second special interim 2017 ordinary	60.00	38,400	27.12.2017
Total amount		179,200	

18. OPERATING SEGMENTS

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

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

Net revenues of approximately RM121.8 million (2017: RM141.2 million) are derived from a single external customer.

19. FINANCIAL INSTRUMENTS

19.1 Categories of financial instruments

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

Applicable for financial instruments prior to 1 Jan 2018

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

Applicable for financial instruments after 1 Jan 2018

- (a) Amortised costs ("AC"); and
- (b) Fair value through profit or loss ("FVTPL"):

	Carrying amount 2018 RM'000	AC (FL) 2018 RM'000	FVTPL 2018 RM'000	Carrying amount 2017 RM'000	L&R/ (FL) 2017 RM'000	FVTPL -HFT 2017 RM'000
Financial assets						
Trade and other receivables	112,381	112,381	-	106,730	106,730	-
Derivative financial assets	190	-	190	-	-	-
Cash and cash equivalents	32,109	32,109	-	61,339	61,339	-
	144,680	144,490	190	168,069	168,069	-
Financial liabilities						
Trade and other payables	(266,388)	(266,388)	-	(270,306)	(270,306)	-
Derivative financial liabilities	(1,059)	-	(1,059)	(3,181)	-	(3,181)
	(267,447)	(266,388)	(1,059)	(273,487)	(270,306)	(3,181)

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Net gains/(losses) from:		
Fair value through profit or loss	2,311	(3,110)
Amortised costs	507	-
Loans and receivables	-	(743)
Financial liabilities measured at amortised cost	-	(2,879)
	2,818	(6,732)

19.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

19.4 Credit risk

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

Trade receivables

Risk management objectives, policies and processes for managing the risk

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

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

A significant portion of these trade receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the trade receivables. Any trade receivables having significant balances past due more than 60 days which are deemed to have higher credit risk, are monitored individually.

The Company's approach to the expected loss rates are based on the payment profiles of sales over a period of 48 months before reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.4 Credit risk (continued)

Trade receivables (continued)

The Company has identified the GDP, retail volume growth and available historical data geo-economic stability of Malaysia, in which it sells most of its goods, to be the most relevant factors, and accordingly determine the historical loss rates based on expected changes in these factors. The expected loss rate is depicted in the table below:

Age profile	Not past due	Past due 1 - 7 days	Past due 7 - 14 days	Past due 14 - 30 days	Past due 31 - 90 days	Past due more than 90 days
%	0.01	0.10	1.00	1.50	2.50	10.00

No significant changes to estimation techniques or assumptions were made during the reporting period.

Changes to loss allowance

The resulting impact due to the adoption of MFRS 9 is shown in the table below. The movements in the loss allowance of trade receivables during the financial year were:

	2018 RM'000	2017 RM'000
At 31 December - calculated under MFRS 139	3,953	3,952
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 January 2018 - calculated under MFRS 9	3,953	3,952
Increase in loss allowance recognised in profit and loss during the year	566	-
At 31 December	4,519	3,952

There were no significant changes to the gross carrying amount that contributed to changes in loss allowances. The allowance account in respect of trade receivables is used to record expected credit losses and individual impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the trade receivable directly.

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.4 Credit risk (continued)

Trade receivables (continued)

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the gross carrying amounts in the statement of financial position. The following table contains an analysis of the credit risks exposure for which expected credit loss is recognised:

	Gross RM'000	Individual impairment RM'000	Expected credit loss RM'000	Net RM'000
2018				
Not past due	57,497	-	(5)	57,492
Past due 1 - 7 days	19,832	-	(16)	19,816
Past due 7 - 14 days	149	-	(7)	142
Past due 14 - 30 days	8,957	-	(99)	8,858
Past due 31 - 90 days	7,985	-	(223)	7,762
Past due over 90 days	5,554	(3,953)	(216)	1,385
	99,974	(3,953)	(566)	95,455
2017				
Not past due	70,429	-	70,429	
Past due 1 - 30 days	18,042	-	18,042	
Past due 31 - 90 days	4,751	-	4,751	
Past due over 90 days	3,971	(3,953)	18	
	97,193	(3,953)	93,240	

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

Other receivables and deposits

Exposure to credit risk, credit quality and collateral

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

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.4 Credit risk (continued)

Related company balances

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Deposits placed with licensed banks

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

The deposits placed with licensed banks are unsecured.

Derivative financial assets

Exposure to credit risk, credit quality and collateral

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

19.5 Liquidity risk

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

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

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

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.5 Liquidity risk (continued)

Maturity analysis

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

	Carrying amount RM'000	Contractual interest rate/coupon RM'000	Contractual cash flows RM'000	Under 1 Year RM'000
2018				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	266,388	-	266,388	266,388
Bank overdraft	15,172	-	15,172	15,172
<i>Derivative financial liabilities</i>				
Forward exchange contracts (net settled)	869	-	869	869
	282,429	-	282,429	282,429
2017				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	270,306	-	270,306	270,306
<i>Derivative financial liabilities</i>				
Forward exchange contracts (net settled)	3,181	-	3,181	3,181
	273,487	-	273,487	273,487

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.6 Market risk

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

19.6.1 Currency risk

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

Risk management objectives, policies and processes for managing the risk

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

Exposure to foreign currency risk

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

	Denominated in						
	USD RM'000	NZD RM'000	SGD RM'000	EUR RM'000	AUD RM'000	THB RM'000	IDR RM'000
2018							
Amounts owing by related companies	8,933	-	-	58	-	-	-
Cash at bank	(15,115)	-	-	-	-	-	-
Trade payables	(3,750)	(674)	(68)	(1,129)	(649)	(12,452)	-
Amounts owing to related companies	(25,609)	-	-	(7,591)	-	-	-
	(35,541)	(674)	(68)	(8,662)	(649)	(12,452)	-
2017							
Amounts owing by related companies	1,091	-	-	167	-	-	-
Cash at bank	850	-	-	-	-	-	-
Trade payables	(2,454)	(577)	(28)	(1,298)	(874)	(4,636)	-
Amounts owing to related companies	(22,677)	-	(10)	(4,043)	-	-	(3,207)
	(23,190)	(577)	(38)	(5,174)	(874)	(4,636)	(3,207)

Notes to the Financial Statements

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.6 Market risk (continued)

19.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2017: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Equity		Profit or loss	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
USD	2,701	1,762	2,701	1,762
NZD	51	44	51	44
SGD	5	3	5	3
EUR	658	393	658	393
AUD	49	66	49	66
THB	946	352	946	352
IDR	-	244	-	244

A 10 % (2017: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant. The movements in other currency exchange rates are not expected to have any significant effect on the profit or loss.

19.6.2 Interest rate risk

The Company does not have fixed rate borrowings. The Company's variable rate borrowings which is primarily its overdraft facility is exposed to a risk of change in cashflows due to fluctuation in market interest rate. The Company places short term deposits with licensed banks which are not significantly exposed to risk of changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

19.6.3 Other price risk

Other price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Other price risk comprises equity price risk and commodity price risk. The Company is not exposed to any other price risk.

19. FINANCIAL INSTRUMENTS (CONTINUED)

19.7 Fair value information

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

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

	Fair value of financial instruments carried at fair value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
Financial assets					
Forward exchange contracts	-	190	-	190	190
Financial liabilities					
Forward exchange contracts	-	(1,059)	-	(1,059)	(1,059)
2017					
Financial liabilities					
Forward exchange contracts	-	(3,181)	-	(3,181)	(3,181)

Level 1 fair value

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

Level 2 fair value

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

Derivatives

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

Level 3 fair value

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

Notes to the Financial Statements

20. CAPITAL MANAGEMENT

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

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

The return on capital at 31 December 2018 and 31 December 2017 were as follows:

	2018	2017
Results from operating activities (RM'000)	173,865	157,405
Total equity attributable to owners of the Company (RM'000)	105,459	104,010
Return on capital (%)	164.9	151.3

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

21. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 RM'000	2017 RM'000
Less than one year	3,098	5,097
Between one and five years	864	3,528
	3,962	8,625

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

22. RELATED PARTIES

Identity of related parties

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

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

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

	2018 RM'000	2017 RM'000
Management fee paid to immediate holding company		
- FrieslandCampina DLMI Malaysia Holding B.V.	(61)	(116)
Purchase of fully packed dairy products and raw materials from fellow subsidiaries		
- FrieslandCampina Nederland Holding B.V.	(350,660)	(273,030)
- P.T. Frisian Flag Indonesia	(33,238)	(38,814)
- FrieslandCampina AMEA Pte Ltd	-	(97,313)
- FrieslandCampina Thailand	(13,363)	(4,000)
Sales of fully packed dairy products to fellow subsidiaries		
- FrieslandCampina Domo B.V.	6,634	3,957
- PAKEngroFoods - Engro Foods Limited	3,264	-
- FrieslandCampina (Singapore) Pte Ltd	13,100	15,573
Know-how, trademark license and management support fees paid to fellow subsidiary		
- FrieslandCampina Nederland B.V.	(25,668)	(26,816)
Information, communication and technology services paid to fellow subsidiary		
- FrieslandCampina Nederland Holding B.V.	(13,500)	(14,265)
Finance shared services paid to fellow subsidiary		
- FrieslandCampina Nederland Holding B.V.	(2,733)	(1,623)
Shared services fee received from fellow subsidiary		
- FrieslandCampina Service Centre Asia Pacific Sdn Bhd	116	216

Statement by Directors

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

We, Tarang Gupta and Jurgen Sandmann, two of the Directors of Dutch Lady Milk Industries Berhad, do hereby state that in the opinion of the Directors, the financial statements set out on pages 102 to 139 are drawn up so as to give a true and fair view of the financial position and financial performance of the Company for the financial year ended 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

.....
Tarang Gupta

Petaling Jaya
27 February 2019

.....
Jurgen Sandmann

Statutory Declaration

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

I, Jurian Duijvestijn, 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 102 to 139 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya, Selangor Darul Ehsan on 27 February 2019.

.....
Jurian Duijvestijn

Before me:

Independent Auditors' Report

to the members of Dutch Lady Milk Industries Berhad

(Incorporated in Malaysia)
(Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Dutch Lady Milk Industries Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 102 to 139 .

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Our audit approach

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

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

Independent Auditors' Report

to the members of Dutch Lady Milk Industries Berhad

(Incorporated in Malaysia)

(Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
<p>Use of estimates in revenue recognition arising from rebates and discounts given to customers</p> <p>Our 2018 audit was planned and executed having regard to the fact that the operations of the Company were largely unchanged from the prior year. In light of this, our overall audit approach in terms of scoping and key audit matters were largely unchanged with continued focus over the estimates in revenue recognition arising from rebates and discounts given to customers.</p> <p>Revenue is recognised net of rebates and discounts. Rebates and discounts recognised are based on the expected entitlement earned up to reporting date under each customer trading agreement and promotions run.</p> <p>The Company has two categories of rebates and discounts where estimates are used:</p> <ul style="list-style-type: none"> • Conditional rebates • Promotional discounts <p>Conditional rebates and promotional discounts are triggered when certain conditions are met. The amount payable is based on conditions achieved, multiplied by rates contracted with each customer in their trading agreements.</p> <p>We focused on this area given the subjectivity in estimating the sales volumes or values on which to determine related accruals at the reporting date.</p> <p>Refer to Note 1(d)(i) (Use of estimates and judgements) and Note 2(k)(i).</p>	<ul style="list-style-type: none"> • We evaluated and tested the operating effectiveness of controls in relation to the authorisation of rebates and promotional activities and the determination of year end accruals. • We evaluated the reasonableness of management's estimates on meeting volume or sales targets in relation to conditional rebates and promotional discounts. We have performed a comparison of actual sales volume and values achieved by the customer against the sales volume and values recorded. • We have tested the accruals of unclaimed rebates and promotional discounts to subsequent claims after the year end. <p>There were no material exceptions noted from our procedures.</p>

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report and the complete 2018 Annual Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent Auditors' Report

to the members of Dutch Lady Milk Industries Berhad

(Incorporated in Malaysia)

(Company No. 5063-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

GAN WEE FONG
03253/01/2021J
Chartered Accountant

Kuala Lumpur
27 February 2019

Recurrent Related Party Transactions

of a revenue or trading nature

At the Fifty-Fifth Annual General Meeting of the Company held on 26 April 2018, the Company had obtained a general mandate from its shareholders' for recurrent related party transactions of a revenue or trading nature, to be entered into by the Company ("RRPT Mandate")

The RRPT Mandate is valid until the conclusion of the forthcoming Fifty-Sixth Annual General Meeting of the Company to be held on 26 April 2019. The Company proposes to seek a renewal of the existing RRPT Mandate and a new RRPT Mandate at its forthcoming Fifty-Sixth Annual General Meeting. The renewal of the existing RRPT Mandate and the new RRPT Mandate, if approved by the shareholders, will be valid until the conclusion of the Company's next Annual General Meeting. Details of the RRPT Mandate being sought is provided in the Circular to Shareholders dated 28 March 2019 sent together with the Annual Report.

Pursuant to paragraph 10.09(2)(b) and paragraph 3.1.5 of Practice Note 12 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, details of the recurrent related party transactions of a revenue or trading nature entered into during the financial year ended 31 December 2018 by the Company are as follows:

Related Party	Nature of Transaction	Value of Transaction RM'000
FrieslandCampina Nederland Holding B.V., the Netherlands	Purchase and sale of fully packed dairy products and raw materials	391,054
P.T. Frisian Flag Indonesia, Indonesia	Purchase of fully packed dairy products and raw materials	39,580
FrieslandCampina Foremost (Thailand) Pte Ltd	Purchase of fully packed dairy products	13,363
FrieslandCampina Nederland B.V., the Netherlands	Sale of fully packed dairy products	15,734
FrieslandCampina (Singapore) Pte Ltd, Singapore	Sale of fully packed dairy products	14,368
Engro Foods Limited, Pakistan	Sale of full cream milk powder	3,425
FrieslandCampina Nederland B.V., the Netherlands	Payment of fees for know-how, Trademark licence and Management support	29,782
FrieslandCampina DLMI Malaysia Holding B.V., the Netherlands	Receipt of corporate services	61
FrieslandCampina Nederland Holdings B.V., the Netherlands	Receipt of shared ICT and communication services	18,017
FrieslandCampina Service Centre Asia Pacific Sdn Bhd	Receipt of shared finance and procurement services	3,372
FrieslandCampina Service Centre Asia Pacific Sdn Bhd	Provision of shared services	136

Analysis of Shareholdings

ANALYSIS OF SHAREHOLDINGS AS AT 27 FEBRUARY 2019

Class of Shares	Ordinary shares
Voting Rights	On show of hands : 1 vote
	On a poll : 1 vote for each share held

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

Size of Holdings	No of Shareholders	% of Shareholders	No of Shares	% of Shareholding
Less than 100 shares	183	3.60	1,854	0.00
100 to 1,000 shares	3,333	65.61	1,597,571	2.50
1,001 to 10,000 shares	1,332	26.22	4,663,988	7.24
10,001 to 100,000 shares	199	3.92	5,432,898	8.49
100,001 to 3,199,999(*)	31	0.61	13,764,989	21.51
3,200,000 & above(**)	2	0.04	38,562,700	60.26
	5,080	100.00	63,994,000	100.00

Note: * - Less than 5% of Issued Holdings

** - 5% and above of Issued Holdings

Name of 30 Largest Shareholders	No of Shares	% of Holdings
1. FrieslandCampina DLMI Malaysia Holding B.V. **	32,614,800	50.97
2. Citigroup Nominees (Tempatan) Sdn Bhd ** Employees Provident Fund Board	5,947,900	9.29
3. Amanahraya Trustees Berhad Amanah Saham Bumiputera	2,921,700	4.57
4. Maybank Nominees Tempatan Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	1,995,400	3.12
5. Amanahraya Trustees Berhad Amanah Saham Malaysia 2 - Wawasan	1,400,000	2.19
6. Amanahraya Trustees Berhad ASN Umbrella for ASN Equity 3	693,000	1.08
7. Yong Siew Lee	574,000	0.90
8. Amanahraya Trustees Berhad Amanah Saham Bumiputera 3 - Didik	500,000	0.78
9. Amanahraya Trustees Berhad Public Islamic Treasures Growth Fund	493,800	0.77
10. Yeo Khee Bee	442,900	0.69
11. Aun Huat & Brothers Sdn Berhad	416,500	0.65
12. Maybank Nominees (Tempatan) Sdn Bhd National Trust Fund (IFM Maybank)	386,300	0.60

Name of 30 Largest Shareholders		No. Of Shares	% Of Holdings
13.	Kumpulan Wang Persaraan (Diperbadankan)	371,300	0.58
14.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Aun Huat & Brother Sdn Berhad (E-IMO/ BCM)	336,900	0.53
15.	Amanahraya Trustees Berhad ASN Umbrella for ASN SARA (Mixed Asset Conservative) 1	250,000	0.39
16.	Amanahraya Trustees Berhad ASN Umbrella for ASN Imbang (Mixed Asset Balanced) 2	235,000	0.37
17.	Amanahraya Trustees Berhad ASN Imbang (Mixed Asset Balanced) 1	219,250	0.34
18.	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for INVESCO Funds	200,000	0.31
19.	Permodalan Nasional Berhad	200,000	0.31
20.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chan See Min Realty Sdn Bhd (E-KUG)	200,000	0.31
21.	Amanahraya Trustees Berhad Public Dividend Select Fund	187,600	0.29
22.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (UOB AMM6939-406)	162,000	0.25
23.	Quek Guat Kwee	162,400	0.25
24.	Maybank Nominees (Tempatan) Sdn Bhd National Trust Fund (IFM Eastspring) (410140)	161,400	0.25
25.	Chow Kok Meng	160,000	0.25
26.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yaw Kah Huei (E-JAH)	156,500	0.24
27.	Yayasan Guru Tun Hussein Onn	156,300	0.24
28.	CIMB Commerce Trustees Berhad Public Focus Select Fund	154,900	0.24
29.	Amanahraya Trustees Berhad Public Islamic Emerging Opportunities Fund	142,200	0.22
30.	Citigroup Nominees (Asing) Sdn Bhd CBNY for DFA Emerging Markets Small Cap Series	138,400	0.22
Total		51,981,350	81.20

Analysis of Shareholdings

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

Name	Direct	%	Indirect	%
1. FrieslandCampina DLMI Malaysia Holding B.V.	32,614,800	50.97	0	0
2. Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	5,947,900	9.29	0	0

DIRECTORS SHAREHOLDINGS

Name	Direct	%	Indirect	%
1. Dato' Zainal Abidin bin Putih	-	-	-	-
2. Tarang Gupta	-	-	-	-
3. Boey Tak Kong	-	-	-	-
4. Saw Chooi Lee	-	-	-	-
5. Bernardus Hermannus Maria Kodden	-	-	-	-
6. Dato' Dr Rosini binti Alias	-	-	-	-
7. Jurgen Clemens Johannes Sandmann	-	-	-	-
8. Tengku Nurul Azian binti Tengku Shahrman	-	-	-	-
9. Datin Seri Sunita Mei-Lin Rajakumar	-	-	-	-

PARTICULARS OF PROPERTIES AS AT 31 DECEMBER 2018

Location of Property	Lot 78, Lot 79 and Lot 48 Jalan Semangat, Petaling Jaya
Brief description	Factory buildings, office complex and warehouse
Approximate land area	432,617 sq ft.
Tenure leasehold land	Leasehold land expiring in the year 2059
Date of acquisition	21.10.1960 & 19.03.1980 & 12.01.1989
Age of property	Between 30 years to 59 years
Net Book Value (RM 'mln)	28.4 mln

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PROXY FORM



CDS Account	
No of shares	

DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)
(incorporated in Malaysia under the then Companies Ordinances, 1940 - 1946)

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

of

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

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

And/or (delete as appropriate)

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

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Fifty-Sixth Annual General Meeting of the Company to be held at Ballroom 2, Level 3D, Sheraton Petaling Jaya Hotel, Jalan Utara C, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Friday, 26 April 2019 at 9 a.m. and any adjournment thereof, in respect of my/our shareholding in the manner indicated below:-

RESOLUTION NO	RESOLUTION	FOR	AGAINST
Resolution 1	Proposed increase and payment of Directors' fees for the financial year ending 31 December 2019, to be paid quarterly		
Resolution 2	Proposed increase and payment of Directors' benefits (other than Directors' fees) for the period from 1 January 2019 until the conclusion of the next Annual General Meeting of the Company		
Resolution 3	Re-election of Saw Chooi Lee		
Resolution 4	Re-election of Bernardus Hermannus Maria Kodden		
Resolution 5	Re-election of Tengku Nurul Azian binti Tengku Shahrman		
Resolution 6	Re-election of Jurgen Clemens Johannes Sandmann		
Resolution 7	Re-election of Datin Seri Sunita Mei-Lin Rajakumar		
Resolution 8	Re-appointment of PricewaterhouseCoopers PLT as the Company's Auditors		
Resolution 9	Proposed New and Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Resolution 10	Retention of Dato' Zainal Abidin Bin Putih as an Independent Director of the Company		
Resolution 11	Proposed Adoption of the New Constitution of the Company		

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

Signed thisday of 2019

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

Notes:-

1. A member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint a proxy/proxies to attend and vote instead of him. A proxy need not be a member of the Company shall not apply. A proxy appointed to attend and vote at the Meeting shall have the same rights as a Member to speak at the Meeting.
2. Save for an Exempt Authorised Nominee as defined under the Central Depositories Act which may appoint multiple proxies in respect of each Omnibus Account it holds with ordinary shares of the Company standing to the credit of the said securities account, a Member (including an authorised nominee) shall be entitled to appoint not more than two (2) proxies to attend and vote at the same meeting. In any case, where more than one (1) proxy is appointed, such appointment shall not be valid unless the proportion of the holdings represented by each proxy is specified.
3. This instrument appointing the proxy must be signed by the Member or the attorney duly authorised in writing, or if the appointer is a corporation, the instrument must be executed under its common seal or under the hand of its officer or attorney duly authorised.
4. Only Members, whose names appearing the Record of Depositors as at 20 April 2019 (General Meeting Record of Depositors) shall be entitled to attend and vote at the Meeting or appoint proxy/proxies to attend and/or vote on his behalf.
5. To be valid, the original instrument appointing a proxy, duly completed (and if applicable, the power of attorney or other authority under which it is originally signed or notarially certified copy of that power of authority) must be deposited at the office of Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, not less than 24 hours before the time set for holding the Meeting or any adjournment thereof (or in the case of poll, before the time appointed for the taking of the poll).
6. Pursuant to Paragraph 8.29A of the Main Market Listing requirements, all resolutions set out in the Notice of the 56th Annual General Meeting of the Company will be put to vote by way of poll.
7. Registration and Door Gifts
Registration will commence at 7.30 a.m. on the day of the Meeting. Members and Proxies are advised to be punctual. For verification purposes, Members and Proxies are required to produce their original identification card at the registration counter. In conformity with past practice, please take note that each Member or Proxy who is present shall be entitled to one (1) door gift only upon registration, irrespective of the number of Members he/she represent (e.g. in the event a Member and/or Proxy represents himself and/or two or more Members, he/she shall be entitled to one (1) door gift only).

Please fold here to seal

STAMP

Share Registrar

DUTCH LADY MILK INDUSTRIES BERHAD (5063-V)

Boardroom Share Registrars Sdn Bhd

(Formerly known as Symphony Share Registrars Sdn Bhd)

Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47300 Petaling Jaya,
Selangor Darul Ehsan,
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