

Dutch Lady Milk Industries Berhad

Company No: 5063-V



Laporan Tahunan 2012 Annual Report





FrieslandCampina nl

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

www.frieslandcampina.com

BLUE VALUES

Believe in Growth | Look Forward | Unite as One Team | Excel in Execution

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NOTICE IS HEREBY GIVEN that the Fiftieth Annual General Meeting of the Company will be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan, on Wednesday, 29 May 2013 at 10.00 a.m. for the following purposes:

AGENDA

AS ORDINARY BUSINESS

To receive the Audited Financial Statements for the financial year ended 31 December 2012, together with the Reports of the Directors and Auditors thereon. (Please refer to Explanatory Note 1)

Resolution 1

- 1 To approve the increase and payment of Directors' fees of RM273,200 for the financial year ending 31 December 2013, to be payable quarterly in arrears.

Resolutions 2 & 3

- 2 To re-elect the following Directors, who retire by rotation pursuant to Article 94(a) of the Company's Articles of Association:
 - (i) Mr. Foo Swee Leng
 - (ii) Mr. Huang Shi Chin

Resolution 4

- 3 To re-appoint Mr. Freek Rijna, who was appointed during the year and retires pursuant to Article 97 of the Company's Articles of Association.

Resolution 5

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

AS SPECIAL BUSINESS

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

Resolution 6

- 5 **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

"**THAT** approval be and is hereby given to the Company to enter into and to give effect to the Recurrent Related Party Transactions of a Revenue or Trading Nature as stated in Section 2.1.4 with the specified classes of Related Parties as stated in Section 2.1.3 of the Circular to Shareholders dated 26 April 2013 which are necessary for the Company's day-to-day operations subject to the following:-

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

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

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company at which time it will lapse, unless by a resolution passed at the Meeting the authority is renewed; or
- (b) the expiration of the period within which the next AGM of the Company subsequent to the date it is required to be held pursuant to Section 143(1) of the Malaysian Companies Act, 1965 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

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

Resolution 7

- 6 **RETENTION OF MR. BOEY TAK KONG AS AN INDEPENDENT DIRECTOR OF THE COMPANY**

"**THAT** approval be and is hereby given to Mr. Boey Tak Kong, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, to continue to act as an Independent Non-Executive Director of the Company in accordance with the Malaysian Code of Corporate Governance 2012."

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

By Order of the Board

IZREEN FARA BINTI ISMAIL (MAICSA 7056439)

Company Secretary
Petaling Jaya
26 April 2013

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 and Section 149(1)(b) of the Companies Act, 1965 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. 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 hand of its offer or attorney duly authorised.
4. Only Members whose names appear in the Record of Depositors on 22 May 2013 shall be entitled to attend and vote at the Meeting or appoint a proxy to attend and vote in his stead.
5. To be valid, the instrument appointing a proxy, duly completed (and if applicable) the power of attorney or other authority under which it is signed or notarially certified copy of that power of authority) must be deposited at the Registered Office of the Company at Level 5, Quill 9, No. 112, Jalan Semangat, 46300 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.

Explanatory Notes to the Agenda**(i) Item 1 of the Agenda**

This item of the Agenda is meant for discussion only in accordance with the provision of Section 169(1) of the Companies Act, 1965.

(ii) Resolution 6: Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

Please refer to the Circular to Shareholders dated 26 April 2013.

(iii) Resolution 7: Retention of Mr. Boey Tak Kong as an Independent Director of the Company

The Nomination Committee has assessed the independence of Mr. Boey Tak Kong, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years, and the Board, upon the Nomination Committee's recommendation, had recommended for shareholders' approval for him to continue to act as an Independent Non-Executive Director of the Company based on the following justifications:-

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

Statement Accompanying Notice of Fiftieth Annual General Meeting

Pursuant to Para 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Directors who are standing for re-election and re-appointment at the Fiftieth Annual General Meeting of the Company are as follows:-

- a) Mr. Foo Swee Leng
- b) Mr. Huang Shi Chin
- c) Mr. Freek Rijna

The profiles of the abovementioned Directors who are standing for re-election/re-appointment are as set out in pages 7 and 8 of the Annual Report.

BOARD OF DIRECTORS

CHAIRMAN

Dato' Zainal Abidin bin Putih
Independent Non-Executive Director

DIRECTORS

Rahul John Colaco
Managing Director

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

Freek Rijna
Non-Independent Non-Executive Director

Foo Swee Leng
Independent Non-Executive Director

Huang Shi Chin
Non-Independent Non-Executive Director

Boey Tak Kong
Independent Non-Executive Director

COMPANY SECRETARY

Izreen Fara binti Ismail
(MAICSA 7056439)

AUDIT COMMITTEE

CHAIRMAN

Boey Tak Kong

MEMBERS

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

REMUNERATION COMMITTEE

CHAIRMAN

Dato' Dr. Mhd. Nordin bin Mohd. Nor

MEMBERS

Huang Shi Chin
Rahul John Colaco

NOMINATION COMMITTEE

CHAIRMAN

Foo Swee Leng

MEMBERS

Dato' Zainal Abidin bin Putih
Boey Tak Kong

REGISTERED OFFICE

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

REGISTRAR

SYMPHONY SHARE

REGISTRARS SDN BHD

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Telephone : 03-7841 8000
Facsimile : 03-7841 8151

WEBSITE

www.dutchlady.com.my

INVESTOR RELATIONS & ENQUIRIES

finance.dept@frieslandcampina.com

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad

AUDITORS

KPMG (AF: 0758)

Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

PUBLIC BANK BERHAD

12, Jalan 14/14
46100 Petaling Jaya
Selangor Darul Ehsan

THE ROYAL BANK OF SCOTLAND BERHAD

Level 1, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur

MALAYAN BANKING BERHAD

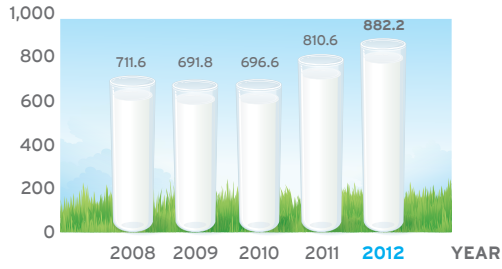
18A, Jalan 14/14
46100 Petaling Jaya
Selangor Darul Ehsan

SOLICITORS

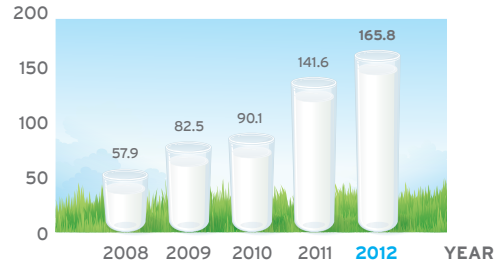
KHAW & PARTNERS

6th Floor
Menara Boustead
Jalan Raja Chulan
50200 Kuala Lumpur

RM mln **REVENUE**



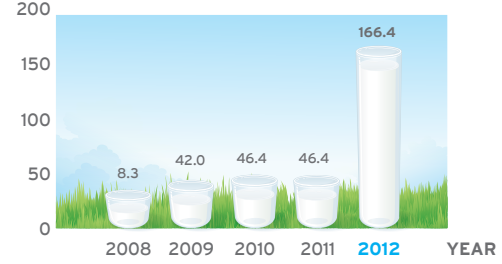
RM mln **PROFIT BEFORE TAX**



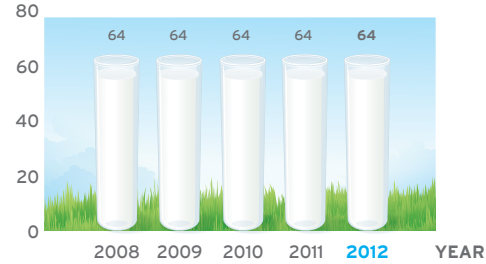
RM mln **NET PROFIT FOR THE YEAR**



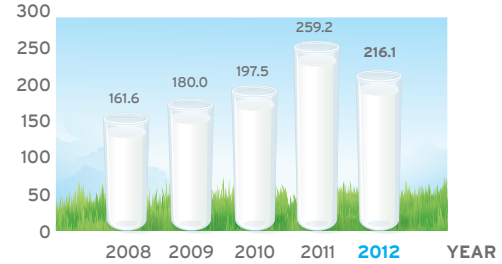
RM mln **NET DIVIDEND PAID**



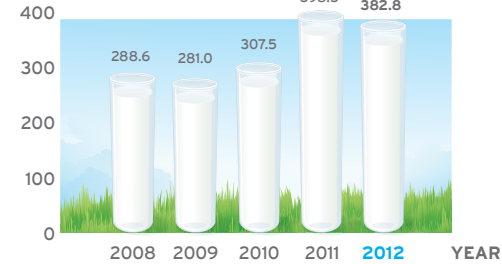
RM mln **ISSUED & FULLY PAID CAPITAL**



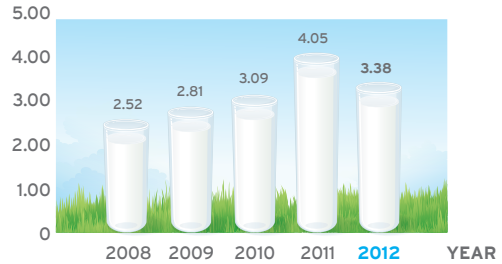
RM mln **SHAREHOLDERS' FUNDS**



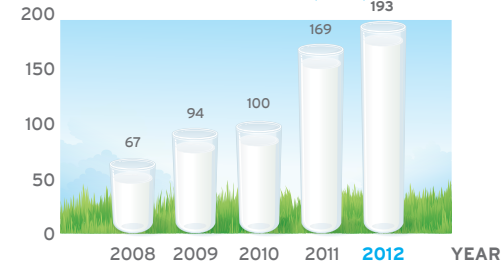
RM mln **TOTAL ASSETS**



RM **NET TANGIBLE ASSET BACKING PER SHARE**



RM (sen) **EARNINGS PER SHARE (NET)**





Move Forward

Innovation is at the heart of what we do

We love what we do best at Dutch Lady - helping Malaysians move forward in life with trusted dairy nutrition. We achieve this through embracing a passion for innovation. To stakeholders, this means we continually exceed our own standards and expectations to deliver outstanding quality and nutritious products. 2012 saw the introduction of Dutch Lady ActivGold, which is uniquely formulated with Isomaltulose, a type of carbohydrate which provides sustainable energy.



DATO' ZAINAL ABIDIN BIN PUTIH

Aged 67. Malaysian. Independent Non-Executive Director. Chairman of the Company since 27 May 2009. Member of the Audit and Nomination Committees. He is also a director of several publicly listed companies. He is a qualified Chartered Accountant (England & Wales), a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountant. He does not have any family relationship with any director and / or major shareholder of the Company, nor any conflict of interest with the Company. He has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all six Board Meetings held during the financial year.

MR. FREEK RIJNA

Aged 58. Dutch national. Non-Independent Non-Executive Director. Appointed to the Board on 1 January 2013. He is a member of the Executive Board of Royal FrieslandCampina N.V., the ultimate holding company of the Company, with responsibility for business group Consumer Products International. He holds a degree in Economics and has an MBA from Erasmus University, Rotterdam in the Netherlands. He does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V.. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He did not attend any Board Meetings held during the financial year since he was only appointed as a Director of the Company on 1 January 2013.

**DATO' ZAINAL ABIDIN
BIN PUTIH**
Chairman

MR. FREEK RIJNA
Director

**MR. RAHUL JOHN
COLACO**
Managing Director

**MR. RAHUL JOHN COLACO**

Aged 40. Indian national. Executive Director. Appointed as Managing Director of the Company on 1 April 2012 and was appointed to the Board on the same date. Member of the Remuneration Committee. He holds a degree in Commerce from Mumbai University, India and has an MBA from International Institute for Management Development, Lausanne in Switzerland. He does not have any family relationship with any director and/or major shareholder of the Company other than as nominee director of Royal FrieslandCampina N.V.. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended four out of six Board Meetings held during the financial year as he was only appointed as Director of the Company on 1 April 2012.

MR. BOEY TAK KONG

Aged 59. Malaysian. Independent Non-Executive Director. Appointed to the Board on 12 November 2001. Chairman of the Audit Committee and member of the Nomination Committee. He is also a director of several publicly listed companies. Currently, he is the Managing Director of Terus Mesra Sdn Bhd, a leadership training company. A Fellow Member of the Chartered Association of Certified Accountants, United Kingdom, Associate Member of the Institute of Chartered Secretaries & Administrators, United Kingdom, Chartered Accountant of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Management. He does not have any family relationship with any director and / or major shareholder of the Company, nor any conflict of interest with the Company. He has no convictions for any offences within the past ten years and he does not hold any shares in the Company. He attended all six Board Meetings held during the financial year.

DATO' DR. MHD. NORDIN BIN MOHD. NOR

Aged 67. Malaysian. Non-Independent Non-Executive Director. Appointed to the Board on 6 August 2003. Chairman of the Remuneration Committee and member of the Audit Committee. He is also a Director of Sunzen Biotech Berhad. He was formerly the Director-General of the Department of Veterinary Services, Malaysia. He is also the Chairman of the Malaysian Animal Welfare Foundation and Patron of the Malaysian Feline Society. He holds a degree in Veterinary Science from the University of Queensland, Australia. He does not have any family relationship with any director and / or major shareholder of the Company other than as nominee director of Permodalan Nasional Berhad. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all six Board Meetings held during the financial year.

MR. BOEY TAK KONG
Director

**DATO' DR. MHD. NORDIN
BIN MD.NOR**
Director

MR. HUANG SHI CHIN
Director

MR. FOO SWEE LENG
Director



MR. HUANG SHI CHIN

Aged 55. Malaysian. He was an Executive Director of the Company until his retirement and subsequent re-designation as a Non-Independent Non-Executive Director on 1 January 2013. He was formerly the Director, Corporate Affairs of the Company and also the Joint Company Secretary until his retirement from the Company on 1 January 2013. Appointed a member of the Remuneration Committee on 1 January 2013. A member of the Institute of Chartered Accountants (England & Wales) and a Chartered Accountant of the Malaysian Institute of Accountants. He does not have any family relationship with any director and/or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all six Board Meetings held during the financial year.

MR. FOO SWEE LENG

Aged 67. Malaysian. Independent Non-Executive Director. Appointed to the Board on 18 June 1986. Chairman of the Nomination Committee and a member of the Audit Committee. He was also a member of the Remuneration Committee up to 1 January 2013. He was formerly the Managing Director of the Company and the Regional Director of Friesland Asia Pacific. He holds a degree in Economics from University Malaya. He does not have any family relationship with any director and / or major shareholder of the Company. He does not have any conflict of interest with the Company and has no convictions for any offences within the past ten years. He does not hold any shares in the Company. He attended all six Board Meetings held during the financial year.

“Safety and Quality continue to be high on the agenda. Your Company achieved world-class ratings in both safety and quality standards during the year. This was made possible with discipline, teamwork and appropriate investments to improve our facilities.”

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 2012.

2012 saw Mr. Rahul Colaco stepping up to lead the Company's management, having taken over from the former Managing Director, Mr. Bas van den Berg in April 2012. Mr. Colaco has continued with the Company's growth strategies, resulting in overall revenue improving by 9% to RM882.2 million in 2012, with growth in the key segments of the business where the Company chooses to compete in. Demand for the Company's core Growing Up Milk powder and liquid dairy products continue to be strong, helped by value-enhancing product innovations, highly effective promotions and appropriate strategies in the market place that drove sales. A positive outcome, despite a slowdown in the overall dairy market during 2012 and in the midst of continued competitive pressure.

I am delighted to inform you that in 2012, the Company again achieved the highest level of profit before tax in its history, amounting to RM165.8 million, 17% higher than the previous year. This result was mainly attributable to more impactful marketing campaigns and

effective sales strategies in powders and drinks, and a favourable sales mix due to the exit of the creamer business.

The Company has been very active throughout the year. One of the most exciting events was the “Drink More Do More” campaign that promoted the consumption of two glasses of milk a day. The campaign enjoyed the endorsement from Malaysia's international athletes, namely diving sensation Pandelega Rinong, cyclist Azizul Awang and badminton duo Koo Kien Kiat and Tan Boon Heong who made us all proud during the Olympics Games in London. In return for their support, Dutch Lady Malaysia brought the athletes' mothers to London to watch their star children compete live. This provided deserving recognition by the Company to the mothers for having raised role models, and the gesture was in line with our aim of unlocking true potential of children through regular milk consumption.

As for new products, 2012 saw the launch of Dutch Lady Chocolate Drink, an Ezy-Mix drink that combines the benefits of dairy and chocolate, thus being able to cater to the tastebuds and nutritional needs of the whole family. The Company also launched

Dutch Lady ActivGold, a new Growing Up Milk powder targeted for the mid-premium segment, which is uniquely formulated with Isomaltulose (a type of carbohydrate which provides energy).

Safety and Quality continue to be high on the agenda. The Company achieved world-class ratings in both safety and quality standards during the year. This was made possible with discipline, teamwork and appropriate investments to improve our facilities.

In line with the Company's aim of helping Malaysians move forward in life with trusted dairy nutrition, the Company has continued its efforts and involvement in the Government's 1Malaysia School Milk programme (PSIM), thus propagating further the importance of dairy nutrition amongst school going children. In addition, the Company also hosted the South East Asia Nutrition Studies (Seanuts) Regional Conference, where we shared our findings with health experts and Government policymakers from a regional nutritional research program that was conducted, which included approximately 3,500 Malaysian children.



DATO' ZAINAL ABIDIN BIN PUTIH
Chairman

The Company has continued driving many other initiatives under its Corporate Social Responsibility (CSR) agenda. These include community services run by volunteering employees, the Working Mothers Forum, Red Crescent partnership, sustainability programs and Dairy Development activities.

With continued volatility in the prices of dairy materials and economic environment, it remains a challenge for the Company to ensure stability in the retail prices of its products in the market. Nonetheless, the Company will remain focused on further reinforcing its financial and operational strength in order to protect the business and enhance shareholder value.

For shareholders, a total of RM166.4 million was paid out as interim dividends during the year, compared to RM46.4 million in the previous year. I wish to remind shareholders though, that the payment of special interim

dividends is very much dependent on the Company's business and operational needs during the year.

In the Board, I have the pleasure in extending a warm welcome to Mr. Freek Rijna, back to the Board as its Non-Executive Director of the Company. He replaces the late Mr. Kapil Garg, as the nominee director of our holding company, Royal FrieslandCampina N.V., who unfortunately succumbed to ill health early this year.

2013 brings with it a celebration of the Company's 50th anniversary. Thanks to you, our shareholders, loyal consumers, partners and customers, who have collaborated with us throughout the years to enable us to be the leading dairy company in Malaysia. To commemorate this milestone, the Company has launched the Inspire Tomorrow Fund, as a means for the Company to give back to society in a meaningful way by recognising

parents' contribution and providing selected recipients with an opportunity to realise their future dreams.

As always, on behalf of the Board, I would like to convey our sincere thanks to the Management, employees and business partners of the Company for their exemplary performance in 2012 and wish them even greater success in the current year.

DATO' ZAINAL ABIDIN BIN PUTIH
Chairman

Key Financial Highlights

Financial Year	2012 RM'000	2011 RM'000
Revenue	882,179	810,647
Gross Profit	346,704	304,472
Results from Operating Activities	162,607	139,368
Profit before Tax	165,801	141,553
Income Tax	42,421	33,471
Profit for the Year	123,380	108,082

Review Of Company Results

Despite the flat growth in the total dairy category and cautious consumer spending environment, the Company registered a 9% increase in Revenue contributed by the strong domestic consumer demand of Growing-Up Milk powder and new product introductions, Dutch Lady Chocolate Drink and Dutch Lady ActivGold during the current financial year. The exit of the sweetened condensed milk business in 2011 has had minimal impact to the overall growth of the Company's Revenue, instead enabling the Company to focus growth in it's key product groups (liquid milk and powder).

During the financial year 2012, Gross Profit increased by 14% compared to last financial year. This was mainly attributed to the exit of the low margin sweetened condensed milk business coupled with higher growth in the liquid milk and powdered milk group with respectable margins. The increase in Gross Profit was also contributed by the strong Ringgit Malaysia against the US Dollar in the first 6 months of the current financial year.

Profit before tax had also increased by 17% apart from the aforesaid also backed by the increase in the Company's net interest income.

- **Review of Business Segment Results**

The Company operates principally in Malaysia and in one major business segment. As such, only one reportable segment analysis is prepared. The Company's Board of Directors reviews internal management reports at least 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 these industries.

- **Income Tax**

With the higher profit before tax registered, the taxation charges for the current financial year under review at RM42.4 million was RM9.0 million higher compared to preceding financial year. The effective tax rate for the current financial year was 26% due to certain expenses disallowed for taxation purpose. The effective tax rate of 24% for year 2011 which is lower compared to the statutory tax rate of 25.0% was mainly due to the refund of excess tax payment for prior years by Inland Revenue Board.

Liquidity And Financial Resources

As at 31 December 2012, the Company's cash and bank balances amounted to RM204.8 million compared to RM193.1 million in the last financial year. The cash and bank balance remained healthy after the dividend payment of RM166.4 million made in May and December 2012.

The excess cash, other than for working capital purposes was transferred to short term fixed deposits. The deposits placed with licensed banks bearing interest at an average of 3.13% during the financial year.

Currently, the Company does not have any drawdown of banking facilities.

Financial Management And Treasury Policy

The Company adopted certain policies on financial risk management for different risk exposures that the Company is faced with. The Company has not entered into any hedging arrangements during the current financial year.

- **Credit Risk**

The Company has adopted a policy of only dealing with creditworthy customers, based on careful evaluation of the customers' financial condition and credit history, as a means of mitigating the risk of financial loss from defaults. The Company also maintains a large number of customers so as to limit high credit concentration in a single customer.

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

- **Liquidity Risk**

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

- **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.

- **Currency Risk**

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currency other than functional currencies of the Company. Primarily, the currencies giving rise to this risk are United States Dollar (US\$) and Euro (EUR) that contributes to 96% of the total currency exposure faced by the Company.

- **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 as of the financial year end. The Company places short term deposits with licensed banks which are not significantly exposed to risk of changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Capital Commitments

The Company's total capital commitment, authorised but not contracted as at 31 December 2012, amounted to RM25.0 million principally to invest in the upkeep of the current factory located at Petaling Jaya.

Charge On Assets

As at 31 December 2012, the Company has not pledged any assets to any financial institutions.

Contingent Liabilities

As at 31 December 2012, the Company has no material contingent liabilities other than the operating leases for its equipment. The details of operating leases are disclosed in note 20 of the audited financial statements.

Material Acquisitions And Disposal Of Subsidiaries And Associated Companies

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.

Employees

As at 31 December 2012, the Company employed a total of 634 employees. Employees were remunerated on the basis of their job scope, experience, performance and prevailing industry practices. The Company's remuneration policy is reviewed on a regular basis. As an incentive for the employees, performance based bonus is awarded to employees based on their individual evaluation for the financial year.

As at 31 December 2012, the Company does not offer an employee share option scheme to its employees.

The Board of Directors is pleased to report to shareholders the manner in which the Company has applied the principles and the recommendations as set out in the Malaysian Code on Corporate Governance 2012 (the Code) pursuant to Paragraph 15.25 of the Main Market Listing Requirements (the Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities).

The Company has complied with relevant Principles and Recommendations as set out in the Code. The Board having duly considered the rationale for any exceptions as set out and explained in this Annual Report is committed to comply with the Principles and Recommendations of the Code.

1 The Board of Directors

1.1 Composition

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

In line with the recommendation of the Code, the tenure of an Independent Director of the Company should not exceed a cumulative term of 9 years. An Independent Director may continue to serve the Board subject to the re-designation of the Independent Director as a Non-Independent Director. In the event the Board intends to retain the Independent Director after serving a cumulative term of 9 years, shareholders' approval will be sought.

Mr. Boey Tak Kong, one of the Independent Non-Executive Directors, has served the Board for more than 9 years as an Independent Director. He will continue to serve the Board as an Independent Director till the date of the ensuing Annual General Meeting of the Company, where shareholders' approval will be sought to retain him as an Independent Director of the Company.

The Board has identified Dato' Zainal Abidin bin Putih as its Senior Independent Director, to whom concerns of shareholders, Management and others may be conveyed.

1.2 Duties and Responsibilities

The Company is led by an experienced Board under a Chairman who is an Independent and Non-Executive Director. The roles of the Chairman and Managing Director are separate and each has a clearly accepted division of responsibilities. Members of the Board are professionals from varied backgrounds, bringing depth and diversity in experience, expertise and perspectives to the Company's business operations. The profiles of the members of the Board are as set out in this Annual Report on pages 7 and 8.

The Board is ensured of a balanced view at all Board deliberations largely due to the presence of its Non-Executive Directors that form a majority in the Board.

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

Pursuant to the recommendation of the Code, the Board has and will carry out an annual assessment of the independence of its Independent Directors.

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

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

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

2 Board Charter

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

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

3 Board Meetings

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

During the financial year, the Board met 6 times; whereat it deliberated and considered a variety of matters including the Company's financial results, the business plan and direction of the Company. The Board receives documents on matters requiring its consideration prior to and in advance of each meeting. The Board papers are comprehensive and encompass all aspects of the matters being considered which enable the Board to look at both the quantitative and qualitative factors so that informed decisions are made.

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

The attendance of the directors at the Board Meetings is set out in the Directors' profile appearing on pages 7 and 8 of the Annual Report.

4 Appointment and Re-election of Directors

The appointment of Directors is undertaken by the Board as a whole. The Nomination Committee recommends candidates suitable for appointment to the Board, and the final endorsement lies with the entire Board to ensure the required mix of skills, experience and expertise of members of the Board is sufficient

to address the issues affecting the Company. In its deliberations, the Board is required to take into account the integrity, professionalism, skill, knowledge, expertise and experience of the proposed candidate.

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

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

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

The Board acknowledges the importance of gender diversity and recognises the benefits that it can bring. The Nomination Committee considers diversity generally when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality and gender. Notwithstanding the challenges in achieving the appropriate level of gender diversity on the Board, the Company will work towards addressing this as and when vacancies arise and suitable candidates are identified. The Company's prime responsibility, however, is the strength of the Board and the overriding aim in any new appointments must always be to select the best candidate available.

5 Directors Training

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

The Board has the responsibility of overseeing the training needs of their Directors. In addition to specific training programmes for its Directors annually, Directors are encouraged to attend relevant seminars and training programmes to equip themselves with the knowledge to effectively discharge their duties as Directors. The Company will, on a continuous basis, evaluate, assess and determine the training needs of its Directors.

For the year under review all Directors (except Mr. Freek Rijna who was appointed to the Board on 1 January 2013) attended briefings and trainings to enable them to effectively discharge their duties. Particulars of the development and training programmes attended by Directors are as set out on page 18 of the Annual Report.

The late Mr. Kapil Garg was unable to attend any training programmes for the financial year ended 2012 due to his ill health.

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

6 Directors Remuneration

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

For Executive Directors of the Company, the Company adheres to the human resource policies and procedures, (which includes that of remuneration of employees who are appointed as Executive Directors of subsidiary companies) of the Royal FrieslandCampina group of companies ("RFC Group"), which includes its performance appraisal system and compensation and benefits scheme. For Executive Directors of the Company, corporate and individual performance is rewarded through the use of an integrated pay benefits and bonus structure. Market competitiveness, business results and individual performance is also considered by the RFC Group in evaluating the Executive Directors' remuneration. The Executive Directors are not paid meeting attendance allowance nor directors' fees.

All 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 an attendance allowance for each Board or Committee meeting that they attend. Members of the Audit Committee also receive a committee allowance.

The aggregate remuneration of Directors of the Company for the financial year ended 31 December 2012 is as follows:

	Executive Directors*	Non-Executive Directors
	RM '000	RM '000
Directors' fees	-	212
Meeting & Committee allowances	-	67
Salaries and other emoluments	2,027	-
Benefits in kind	509	-

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

Range of Remuneration (RM)	Executive Directors*	Non-Executive Directors
50,001 to 100,000		4
500,001 to 550,000	1	
600,001 to 650,000	1	
1,350,001 to 1,400,000**	1	

*includes an Executive Director who resigned during the financial year under review.

**includes a one-time service remuneration award.

7 Board Committees

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

7.1 Audit Committee

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

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

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

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

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

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

The Audit Committee Report for the financial year pursuant to Paragraph 15.15 of the Listing requirements is contained on pages 21 and 22 of this Annual Report.

The Audit Committee's activities during the financial year are as set out on page 22 of this Annual Report.

7.2 Nomination Committee

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

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

The Board has decided and agreed that the Senior Independent Director of the Company to be Dato' Zainal Abidin bin Putih, instead of the Chairman of the Nomination Committee.

The Nomination Committee's responsibility amongst others, is to propose or review new nominees for the Board and Board Committees, to assess the effectiveness of the Board as a whole, examine its size with a view to determine the impact of its number upon its effectiveness, the Committees of the Board and the individual Directors on an on-going basis, and to annually review the required skills and core competencies of Non-Executive Directors. The criteria for assessing the independence of an Independent Director includes the relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company.

The Nomination Committee also ensures that an orientation and education programme is in place for new Board members.

The activities of the Nomination Committee for the financial year include the following:-

- Considered the nominations to the Board of Directors of the Company;
- Reviewed the composition of the Board and Board Committees;
- Assessed and evaluated the effectiveness of Directors through self and peer assessments and the assessment of the Board as a whole (including the Managing Director).

The Nomination Committee meets as required. Three meetings were held during the financial year. All recommendations of the Nomination Committee are subject to the endorsement of the Board.

7.3 Remuneration Committee

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

1. Dato' Dr. Mhd. Nordin bin Mohd. Nor
(Non-Independent Non-Executive Director) - Chairman
2. Mr. Huang Shi Chin
(Non-Independent Non-Executive Director)
(appointed on 1 January 2013)

3. Mr. Rahul John Colaco
(Managing Director)

Mr. Foo Swee Leng (Independent Non-Executive Director) was a member of the Remuneration Committee up to 1 January 2013, when he was replaced by Mr. Huang Shi Chin who was appointed as a member of the Remuneration Committee upon his re-designation as a Non-Independent Non-Executive Director on 1 January 2013.

The Remuneration Committee's primary responsibility is to recommend to the Board the remuneration of Non-Executive Directors. In respect of Executive Directors, the Company adheres to the human resource policies and procedures, (which includes that of remuneration of employees who are appointed as Executive Directors of subsidiary companies) of the Royal FrieslandCampina group of companies ("RFC Group"), which includes its performance appraisal system and compensation and benefits scheme.

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

8 Accountability and Audit

8.1 Financial Reporting:

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

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

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

In preparing the Financial Statements, the Directors have:

- adopted suitable accounting policies and then applied them consistently;

- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed; and
- prepared the Financial Statements on an on-going basis.

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

8.3 Internal Audit

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

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

The Internal Auditors' audit plan, nature and scope of the audit were approved by the Audit Committee prior to the commencement of their audit based on the Company's specially designed Internal Control Framework that aims at optimising the effectiveness and efficiency of the Company's internal controls. They reported on weaknesses in control procedures and made recommendations on areas for improvement.

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

The Internal Audit function also carries out activities under the Enterprise Risk Management programme developed by RFC and implemented by the Company. The programme incorporates a process of identifying, evaluating, monitoring, reporting and managing significant risks that affect the achievement of the Company's objectives and policies.

8.4 External Audit

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

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

9 Relations with Shareholders and Investors

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

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

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

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

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

10 Compliance Statement

The Company has complied with the relevant Principles and Recommendations as set out in the Code other than those as disclosed within this Statement of Corporate Governance.

Training programmes attended by Directors for the financial year ended 2012

Director	Title of Training Programme	Date
Dato' Zainal Abidin bin Putih	Land & General Bhd In House Training - Amendments to the Listing Requirements by BURSA	18 Jan 2012
	Tenaga Nasional Berhad ("TNB") - Macloskey South African Coal Exports Conference 2012, South Africa	1 - 2 Feb 2012
	TNB Board Development Programme - Colloquium on Electricity Industry Reform, Markets and Strategy Discussions on Maintaining the Vertically Integrated Utility	16 Mar 2012
	Briefing on Pillar 3 Disclosure	23 April 2012
	CIMB Bank Board Training - Basel Pillar 2 ICAAP Requirements (Part 1)	30 April 2012
	CIMB Group ("CIMBG") Regional Compliance, Audit & Risk Conference	14 - 15 June 2012
	Corporate Governance Today and the Directors Moving Forward	14 June 2012
	CIMB Bank Board Training - GAP Analysis and Proposed "to-Be" Capital Allocation and Performance Management Framework	3 July 2012
	CIMB Bank Board Training - Basel Pillar 2 ICAAP Requirements (Part 2)	11 July 2012
	CIMBG Board Training - Proposed Refinements to the Capital Allocation & Performance Management Framework and Introduction to SREP	15 Aug 2012
	CIMBG Board Training - Anti-Money Laundering Act : Financial Crime Risk - CIMB Perspective	10 Sept 2012
	Khazanah Megatrends Forum 2012 - The Big Shift - Traversing the Complexities of a New World	1 - 2 Oct 2012
	CIMBG Holdings Annual Management Summit	23 Nov 2012
Mr. Boey Tak Kong	Minority Shareholder Watchdog Group ("MSWG") - Corporate Governance The Competitive Advantage	16 April 2012
	IJM Corporation Berhad - Directors & Officers Liability: The Key Trend In D&O Liability	19 April 2012
	The Chartered Association Of Certified Accountants - Accountants For Business Forum: Diversity Driving Performance In Global Business	14 May 2012
	MWSG - Malaysian Forum On Business Sustainability	24 May 2012
	Ministry Of Women, Family & Community Development Malaysia - 10th Women's Summit 2012 : Break New Ground	17 July 2012
	Solomon Wise - Malaysian Code On Corporate Governance 2012	6 Sept 2012
	In-house Directors' CEP Training Programme - Corporate Commercial Law updates - Corporate Fraud in Malaysia & Fraud Control Health Check - Corporate Governance and Whistleblowing - Security: Kidnapping & Extortion	31 Oct - 2 Nov 2012
ACCA-ICLIF : Too Many Bosses, Too Few Leaders	6 Nov 2012	
Mr. Rahul John Colaco	Bursa Training Sdn Bhd - Mandatory Accreditation Programme	16 - 17 May 2012
	In-house Directors' CEP Training Programme - Corporate Commercial Law updates - Corporate Fraud in Malaysia & Fraud Control Health Check - Corporate Governance and Whistleblowing - Security: Kidnapping & Extortion	31 Oct - 2 Nov 2012
Mr. Foo Swee Leng	In-house Directors' CEP Training Programme - Corporate Commercial Law updates - Corporate Fraud in Malaysia & Fraud Control Health Check - Corporate Governance and Whistleblowing - Security: Kidnapping & Extortion	31 Oct - 2 Nov 2012
Dato' Dr. Nordin bin Mohd Nor	PNB-Nominee Directors Convention and Executive Luncheon Talk 2012	9 Oct 2012
	PNB-Group Quality Initiative 2012	23 Oct 2012
	In-house Directors' CEP Training Programme - Corporate Commercial Law updates - Corporate Fraud in Malaysia & Fraud Control Health Check - Corporate Governance and Whistleblowing - Security: Kidnapping & Extortion	31 Oct - 2 Nov 2012
Mr. Huang Shi Chin	In-house Directors' CEP Training Programme - Corporate Commercial Law updates - Corporate Fraud in Malaysia & Fraud Control Health Check - Corporate Governance and Whistleblowing - Security: Kidnapping & Extortion	31 Oct - 2 Nov 2012

* Mr. Kapil Garg was unable to attend any training programmes for the financial year ended 2012 due to his ill health.

Capacity

The master plan 2012 - 2017 gives an overview of the plants capacity in relation to the forecasted growth volumes & necessary investments required to support this growth in mid & long term.

What - Existing capacity available in each plant, building and hardware along factory with required warehousing & logistic.

When - 2012 to 2017

Who - Project Sponsor, team member

How - Deep dive in plant's capacity in relation to the growth of volume, investment, infrastructure investment to support the growth in mid & long term.

BEST

START

STOP



Winning Together

Passion creates growth and growth creates passion

In today's competitive environment, it takes the attitude and mindset of a winner to succeed. At Dutch Lady, we appreciate our people's inner talents and abilities. We also provide the platform for continuous learning and growth of our talent and expertise. More importantly, we believe in their exceptional energy and potential to excel in what they do. Inevitably, this passion to push the boundaries and surmount challenges helps Dutch Lady to achieve its goals and stay at the forefront of competition.



Pursuant to paragraph 15.15 of the Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa Securities)

1 Membership and Meeting of the Committee

Members of the Audit Committee are:

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

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

The Audit Committee held four meetings during the financial year ended 31 December 2012. Details of attendance of the Audit Committee members are as follows:-

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

2 Role of the Audit Committee

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

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

3 Terms of Reference

• Composition

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

In compliance with Paragraph 15.09(1)(a) of the Listing Requirements of Bursa Securities, all members of the Committee are Non-Executive Directors.

• Quorum

The quorum for a meeting is three.

• Agenda and Notice of Meeting

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

• Attendance of Meeting

Other Board members, the Finance Director, Internal Auditors and External Auditors attend the Audit Committee meetings by invitation of the Audit Committee.

• Frequency of Meetings

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

• Authority

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

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

• Duties

The duties of the Committee are:

- (a) To consider the appointment of the External Auditors and fix their audit fee, and any to assess the suitability and independence of External Auditors.
- (b) To discuss with the External Auditors their audit plan, the nature and scope of the audit, evaluation of the Company's system of internal controls and audit report on the annual Financial Statements.
- (c) To review the quarterly and annual Financial Statements of the Company before submission to the Board of Directors, focusing particularly on:
 - (i) public announcement of the results and dividend payment;
 - (ii) any changes in accounting policies and practices;
 - (iii) the going concern assumption;
 - (iv) compliance with approved accounting standards;
 - (v) compliance with Bursa Malaysia Main Board Listing Regular and legal requirements; and
 - (vi) significant adjustments arising from the audit.
- (d) To discuss issues and reservations arising from the interim and final audits, and any matters the External Auditors may wish to discuss, in the absence of Management where necessary.
- (e) To review the External Auditors' letter to Management and Management's response thereon.
- (f) To do the following, in relation to the internal audit function:-
 - (i) review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (ii) review the internal audit plan and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function by Management;
 - (iii) review and appraise the performance of members of the internal audit function;
 - (iv) approve any appointment or termination of senior staff members of the internal audit function; and

- (v) take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (g) To consider any related party transactions and conflict of interest situations that may arise within the Company.
- (h) To consider the major findings of any internal investigations and Management's response thereon.
- (i) To review the draft Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature, before submission to the Board of Directors.
- (j) To consider any other topics, as defined by the Board.

• Reporting Procedures

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

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

4 Internal Audit Function

The Company has an Internal Audit function that is supported by the Group's Corporate Internal Audit department. The Internal Audit function reports to the Audit Committee.

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

The Internal Audit function also carries out activities under the Enterprise Risk Management programme developed by Royal FrieslandCampina N.V. and implemented by the Company. The programme incorporates a process of identifying, evaluating, monitoring, reporting and managing significant risks that affect the achievement of the Company's objectives and policies.

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

- prepared the audit plan for the year, which is reviewed and approved annually by the Audit Committee. The annual audit plan is based on the 2012 audit plan following a risk likelihood/impact assessment and approved by the Audit Committee on 15 November 2011, and modified where necessary by the Audit Committee;
- determined the manpower requirement to support the audit plan;
- prepared the audit programme based on the audit plan, for each activity or process to be audited;
- maintained the Company's Internal Control Framework, including designing controls, organising self assessments and ensured proper functioning of the system;
- discussed with auditees, process owners and Management on the results of the audit for each activity or process, and the recommendations for improvements;
- engaged in an Enterprise Risk Assessment exercise, which enables the Company to provide an understanding of key risks and to enable Management to define

an adequate and practical improvement plan where necessary;

- reported to the Audit Committee on a quarterly basis, the internal audit findings on risk management, control and governance issues identified during the risk based audits, together with recommendations for improvement in the processes;
- followed up on recommendations from the previous internal audit reports to ensure that all matters arising are adequately addressed; and
- conducted follow-up of recommendations by the External Auditors in their Management letter, if any.

Costs amounting to RM345,696 were incurred in relation to the internal audit function for the financial year ended 31 December 2012.

5 Summary of Audit Committee's Activities

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

The activities of the Audit Committee during the financial year ended 31 December 2012 were as follows:

- (i) reviewed the audit plan, nature and scope of the audit with the Internal and External Auditors;
 - (ii) discussed the findings and recommendations by the Internal and External Auditors on systems and control weaknesses, and ensured that corrective actions were taken by Management.
- During the year, the Audit Committee had three meetings with the External Auditors, without the presence of the Executive Directors and Management staff;
- (iii) reviewed the compliance with accounting standards and ensured that the Company used appropriate accounting policies for its financial statements;
 - (iv) reviewed the Company's quarterly financial results and recommended the same to the Board for approval and announcement to Bursa Malaysia Securities Berhad;
 - (v) reviewed the Company's audited accounts for the year and audit report of the External Auditors on the financial statements and recommended the same to the Board for approval;
 - (vi) considered the quantum, timing and cash flow of dividend payments, and recommended the same to the Board for approval;
 - (vii) reviewed the proposed change to the Company's business model with respect to the distributorship and sale of Friso products in the Malaysian market;
 - (viii) reviewed the related party transactions and any conflict of interest situations during the year; and
 - (ix) reviewed the Circular on Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and recommended the same to the Board for approval.





Caring Together

Responsibility for the future is part of our DNA

Whether it's the environment, work area or the community we operate in, safety continues to be high on Dutch Lady agenda. We work with like-minded people and organisations both internally and externally to ensure a good future for the next generation. Dutch Lady achieved world-class accreditation in both safety and quality standards in 2012, made possible with discipline, teamwork and appropriate investments to improve our facilities.



With Corporate Social Responsibility (CSR) as a key pillar of our business strategy, and as the leader in the Malaysian dairy industry, we are committed to demonstrate responsible corporate conduct across all aspects of our operations.

CSR Mission

Our mission is to create shared value to all our stakeholders through our strategic initiatives. We aim to demonstrate our commitment by actively undertaking strategic initiatives via these areas:

Leading in providing healthy dairy nutrition

The Company aims to continue its effort in combating obesity and nutrient deficiency by ensuring that its products are responsibly manufactured, healthy and available in various choices and portions sizes. This is in line with our mission of "Helping Malaysians move forward in life with trusted dairy nutrition".

- **Drink More Do More 2aDay Campaign**

In conjunction with this campaign, which was aimed at encouraging an increased intake of dairy nutrition, we created another milestone by sponsoring four Malaysian athletes and their mothers to the London 2012 Olympics. The campaign included a donation of 10,000 milk packets to the athletes of the Malaysia Paralympic Council and marked a significant partnership with the Olympic Council of Malaysia. Various activities, including the World Milk Day celebration, were also carried out to spread the goodness of milk and studies have recommended a consumption of at least two servings of milk a day.



- **Partner in the Government's School Milk Programme**

Dutch Lady Malaysia's continued participation in the Program Susu 1Malaysia (PS1M) is an important platform for the Company to help spread the goodness and benefits of milk to school children, which ultimately reinforces our strength as an expert in dairy nutrition. With the Ministry of Education's support, a series of educational road shows were conducted to educate the students on proper milk handling and benefits of milk consumption.



- **Seanuts Conference**

In 2012, Dutch Lady Malaysia, with the support of FrieslandCampina Institute (FCI), the Nutrition Society of Malaysia (NSM) and Universiti Kebangsaan Malaysia (UKM), hosted the regional South East Asian Nutritional Study (SEANUTS) Conference in Kuala Lumpur in conjunction with the completion of the SEANUTS study carried out in 2011. The SEANUTS study was a multi-centre study that was simultaneously carried out among 16,744 children aged 6 months to 12 years in four countries - Malaysia, Indonesia, Thailand, and Vietnam. It was launched to identify the nutritional habits and gaps in knowledge amongst these children. The results of these findings were shared with healthcare professionals, policymakers and parents in order to make a significant difference in the lives of children.



Ensuring sustainability in environment and business operations

We are fully committed towards our responsibility on environmental issues in the conduct of our business. It combines our responsibility with our business objectives for long-term sustainable development. Our Safety, Health & Environment Policy outlines our commitment and position on this.



- **FOQUS quality system**

The Royal FrieslandCampina Group safeguards food safety and food quality with FOQUS - a broad-based quality system that is applicable for both the farms of the member dairy farmers and FrieslandCampina's production and distribution facilities. FOQUS supports the Company in the development of an increasingly robust production process. Whilst ensuring 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.



- **Safety is 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. Concerted efforts are continually made by the Company's Safety Health & Environment department (SHE) to create awareness on the responsibility of keeping safe among our employees when working within our vicinity of the workplace. In developing a strong safety culture within the organization, programmes and various safety initiatives were carried out including leadership training sessions, identifying safety champions amongst employees and conducting defensive driving training sessions to ensure the enhanced safety of staff utilising the Company's fleet of cars.

- **Energy, water and waste management**

Managing water consumption is an important priority for the Company. Various water recycling improvement projects were undertaken at production plants. We made conscious efforts in improving our manufacturing processes and continuously work towards the reduction in the use of electricity throughout the Company. We use natural gas in our manufacturing operations where the consumption and trend of usage is continuously monitored. We have a systematic procedure for the disposal of market-returned products, used packaging materials and scheduled waste. Various focused improvement programmes are carried out to reduce energy waste at all levels of operation processes. We believe all these efforts contribute to a cleaner and greener environment.

- **Green Campaign**

The "Blue Goes Green" campaign was launched as part of an awareness program to encourage employees to "Think Blue, Act Green". Recycling bins were placed in strategic parts of the office and production plants and a "Green Pledge" ceremony was officiated during the Company's Leadership Briefing where commitments to care for the environment were recorded from the Company's employees.

- **Moving society forward by giving back**

We believe in establishing and maintaining good relationship with our consumers, customers, shareholders, suppliers, business partners, organisations and communities in which we operate. We fully acknowledge and remain committed to conduct our business responsibly whilst contributing to society.

- **Supporting local dairy farmers**

Dutch Lady Malaysia started the Dairy Development Programme (DDP) in 2008 in cooperation with the Department of Veterinary Service (DVS) and the Netherlands Embassy. Ever since, the programme that was designed to help local farmers had successfully resulted in a higher production of milk in both quality and volume as well as helped to ensure sustainability of milk supply to us.

- **Employee volunteering initiatives**

Various community outreach programmes were conducted in 2012 via the Company's employee volunteering units. The Dutch Lady Blue Brigade (Blue Brigade) unit and Dutch Lady Doing Good teams reached out to young Malaysians to help spread the goodness of milk and participated in community outreach activities with media, charitable organisations, children's homes and schools throughout the nation.

- **Partnership with the Malaysian Red Crescent Society**

Our continued dedication in supporting the local communities was reflected in our inaugural partnership with the Malaysian Red Crescent Society (MRCS). Employees teamed up during the fasting month of Ramadhan to help prepare breaking fast meals for orphans, old folks, single mothers and children infected with HIV. We aim to continue collaborating with organisations that are in line with our vision to nurture a better Malaysia.



Being the Number One Employer in Dairy

We want to be an employer that respects its employees and inspires them to give their best to the Company. We aim to provide a working environment characterised by fairness, respect and integrity. We have always taken seriously the value of our people and are committed to good employment practices. "Passion for BLUE" (PfB) was introduced in 2010 as a strategy to realise our goals through stronger co-operation amongst teams and operative functions in the company. BLUE values, which is based on the RFC Group's 'Way We Work' was coined, to help build a common set of values that employees can easily remember and assimilate. It is an acronym of four key values: Believe in Growth, Look Forward, Unite as One Team and Excel in Execution. Culture Club, a group of select employees formed in 2010, continues to support the Company's objective of driving the BLUE values among our employees through various employee engagement activities.

- **Employee engagement**

In our ambition to be the number one dairy company in Malaysia, we have adopted the Group's 'Way We Work' working ethos and localised it to enable our employees to understand and assimilate into their own working culture.

We pride ourselves on ensuring open two-way communication channels are available to all employees. We ensure line of sight through various face-to-face communications, half yearly, monthly MD townhall meetings, employees' newsletter known as SUARA and a regularly updated employee portal. We continue to recognise our employees through various employee recognition programmes and awards, giving employees a platform to share their successful working habits.

- **Training and development**

We place highest importance in ensuring that our people are continuously equipped with the necessary skills and knowledge to keep us at the forefront of our business. Our

Talent Assessment Program and Dutch Lady Associate Program identify potential talents with excellent leadership and managerial qualities and to build our talent pipeline. Various initiatives and investments are undertaken to improve employee competencies in soft skills and technical knowledge encompassing management, communication, safety, operational excellence, and leadership. Our commitment to development extends within the region via our Sales and Marketing Academy Workshops and globally with the Future Leaders and Academic Potential Leadership Series. Our people are paramount 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.

- **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 the Royal FrieslandCampina's Code of Conduct which sets out the values, principles and guidelines for how we should conduct our business to ensure integrity, transparency and accountability in all our business undertakings. We expect all our employees to maintain the highest standards of propriety, integrity and conduct in all their business relationships. Employees are contractually bound to abide by the Code of Conduct when conducting themselves at work and with external stakeholders such as our customers and suppliers. Bribery and corruption are not tolerated. Employees are encouraged to report any malpractices without fear or favour to the Company's local trusted representatives or an external contact at the Groups' head office. Whistle-Blowing procedures are in place for employees to address these concerns.

In addition, the Royal FrieslandCampina's Anti-Trust Code of Conduct is cascaded down to relevant employees so as to ensure that the Company's business is conducted in compliance with the basic principles of competition law.



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

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

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

Risk Management

The Company implemented the Enterprise Risk Management programme in August 2012 based on the framework that was developed and issued by Royal FrieslandCampina N.V. (RFC). The programme establishes a process for identifying, evaluating, monitoring, reporting and managing significant risks that affect the achievement of the Company's objectives and policies.

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

The Enterprise Risk Management programme encompasses of the following:-

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

Internal Control Structure and Processes

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

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

- **Board Committees**

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

- **Organisational Structure and Responsibility Levels**

The Company has an organisational structure with formal lines of accountability and authorisation procedures within which senior management operates.

- **Authority Levels, Acquisitions and Disposals**

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

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

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

- **Procedures and Control Environment**

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

The Company has formal guidelines on safety, health and environment.

- **Standards of Business Ethics**

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

In line with this, the Company has an Employee Handbook, Code of Conduct and Whistle-Blowing Procedures. In addition, the Group's Anti-Trust Code of Conduct is cascaded to all relevant employees.

Employees are expected to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest.

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

The Company performs business planning and budgeting process each year, to establish plans and targets against which performance is monitored on a monthly basis by the 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 services levels, forecasting accuracy and inventory turnover.

• **Reporting and Review**

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

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

• **Financial Performance**

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

• **Assurance Compliance**

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

• **Internal Control Framework**

The Company has in place an Internal Control Framework (ICF), to facilitate the effectiveness of the internal control systems in managing business and process risks.

During the year, the Company upgraded its version of the ICF, to be aligned with the internal control standard utilised within the RFC Group.

• **Update on Developments**

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

Internal Audit Function

The Internal Audit function independently focuses on the key areas of business risk based on an audit work plan approved annually by the Audit Committee, and reports on findings, if any, on the systems of financial and operational controls on a quarterly basis to the Audit Committee.

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

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

In addition to internal controls, the Directors have ensured that health and safety regulations, environmental controls and political risks have been considered; and relevant laws and regulations complied with. The quality of the Company's products is paramount. Quality Assurance, Quality Control and meeting customers' requirements are prime considerations and this is achieved by the Company being ISO 9001 certified since 1995. Strong emphasis is also given to food safety with Good Manufacturing Practices and HACCP (Hazard Analysis Critical Control Point) System that covers all plants.

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

Since 2011, the Company has embarked upon FOQUS, a broad based quality system. An annual FOQUS audit is conducted to ensure that products produced by the Company and the way in which it is being produced meets the necessary high standards on food safety, quality, labour safety and environment.

Conclusion

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 the internal control system, and the possibilities for improving the system, the Company's internal risk management and control systems provide a reasonable degree of assurance that:

- the Board will be informed, in good time, of the degree to which the Company's strategic, operational and financial objectives are being achieved;
- the internal and external financial reporting does not contain any material misstatement and that the management and control systems functioned properly during 2012;
- the Company has complied with the relevant legislation and regulations.



Unlocking the Real Potential

Continuing the drive for optimum health and achievement

Dutch Lady strives towards ensuring that consumers are well aware of the goodness of dairy so as to achieve their full potential in life. The World Milk Day celebration in 2012 propagated the "2aDay" consumption of milk. Also, Dutch Lady's involvement in the *Program Susu 1Malaysia* further strengthened the Company's commitment in providing better nutrition for the future.





The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2012.

Principal activities

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

Results

	RM'000
Profit for the year	<u>123,380</u>

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 2012 on 21 May 2012;
- ii) a first special interim ordinary dividend of 80.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM51,200,000 in respect of the financial year ended 31 December 2012 on 21 May 2012;
- 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 2012 on 27 December 2012; and
- iv) a second special interim ordinary dividend of 80.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM51,200,000 in respect of the financial year ended 31 December 2012 on 27 December 2012.

The Directors do not recommend any final dividend to be paid for the financial year under review.

Directors of the Company

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

Dato' Zainal Abidin bin Putih
 Dato' Dr. Mhd Nordin bin Mohd. Nor
 Foo Swee Leng
 Boey Tak Kong
 Huang Shi Chin
 Rahul John Colaco (appointed on 1.4.2012)
 Pieter van der Hoek (appointed as alternate director to Kapil Garg on 24.5.2012 and resigned on 1.1.2013)
 Freek Rijna (appointed on 1.1.2013)
 Sebastiaan Gijsbertus van den Berg (resigned on 1.4.2012)
 Kapil Garg (resigned on 1.1.2013)

In accordance with Article 94(a) of the Company's Articles of Association, Mr. Foo Swee Leng and Mr. Huang Shi Chin retire by rotation at the forthcoming Annual General Meeting and, being eligible offer themselves for re-election.

In accordance with Article 97 of the Company's Article of Association, Mr. Freek Rijna, who was appointed since the date of the last report, retires at the forthcoming Annual General Meeting and, being eligible offers himself for re-election.

Directors' interests in shares

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 Articles of Association, the Directors are not required to hold any shares in the Company.

Directors' benefits

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

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

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Other statutory information

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

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

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

Rahul John Colaco

Freek Rijna

26 February 2013

35 **statement of financial position**
as at 31 december 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Property, plant and equipment	3	73,073	71,602	69,803
Intangible assets	4	1,191	2,446	3,443
TOTAL NON-CURRENT ASSETS		74,264	74,048	73,246
Inventories	5	86,781	93,448	72,722
Trade and other receivables	6	16,176	36,714	75,176
Prepayments		709	1,161	689
Cash and cash equivalents	7	204,844	193,143	85,657
TOTAL CURRENT ASSETS		308,510	324,466	234,244
TOTAL ASSETS		382,774	398,514	307,490
EQUITY				
Share capital	8	64,000	64,000	64,000
Retained earnings	8	152,134	195,154	133,472
TOTAL EQUITY		216,134	259,154	197,472
LIABILITIES				
Deferred tax liabilities	9	4,854	4,051	3,757
TOTAL NON-CURRENT LIABILITIES		4,854	4,051	3,757
Trade and other payables	10	146,538	121,832	99,638
Provision	11	168	375	348
Current tax liabilities		15,080	13,102	6,275
TOTAL CURRENT LIABILITIES		161,786	135,309	106,261
TOTAL LIABILITIES		166,640	139,360	110,018
TOTAL EQUITY AND LIABILITIES		382,774	398,514	307,490

The notes on pages 39 to 62 are an integral part of these financial statements.

	Note	2012 RM'000	2011 RM'000
Revenue		882,179	810,647
Cost of sales		(535,475)	(506,175)
GROSS PROFIT		346,704	304,472
Other income		864	2,057
Distribution expenses		(120,676)	(106,180)
Administrative expenses		(27,472)	(26,134)
Other expenses		(36,813)	(34,847)
RESULTS FROM OPERATING ACTIVITIES		162,607	139,368
Interest income		6,056	3,104
Finance costs		(2,862)	(919)
PROFIT BEFORE TAX	12	165,801	141,553
Income tax expense	14	(42,421)	(33,471)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		123,380	108,082
BASIC EARNINGS PER ORDINARY SHARE (SEN)	15	192.80	168.90

The notes on pages 39 to 62 are an integral part of these financial statements.

37 **statement of changes in equity**
for the year ended 31 december 2012

Attributable to owners of the Company

	Note	<i>Non-distributable Share capital RM'000</i>	<i>Distributable Retained earnings RM'000</i>	<i>Total equity RM'000</i>
AT 1 JANUARY 2011		64,000	133,472	197,472
Total comprehensive income for the year		-	108,082	108,082
Dividends to owners of the Company	16	-	(46,400)	(46,400)
AT 31 DECEMBER 2011/ 1 JANUARY 2012		64,000	195,154	259,154
Total comprehensive income for the year		-	123,380	123,380
Dividends to owners of the Company	16	-	(166,400)	(166,400)
AT 31 DECEMBER 2012		64,000	152,134	216,134
		Note 8	Note 8	

The notes on pages 39 to 62 are an integral part of these financial statements.

	Note	2012 RM'000	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers and other receivables		904,318	849,442
Cash paid to suppliers and employees		(680,227)	(661,156)
CASH GENERATED FROM OPERATIONS			
Income tax paid		(39,640)	(26,350)
NET CASH FROM OPERATING ACTIVITIES			
		184,451	161,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of property, plant and equipment		(9,281)	(10,882)
Additions of intangible assets		(427)	(823)
Proceeds from disposal of property, plant and equipment		164	1,470
Interest received		6,056	3,104
NET CASH USED IN INVESTING ACTIVITIES			
		(3,488)	(7,131)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(2,862)	(919)
Dividends paid	16	(166,400)	(46,400)
NET CASH USED IN FINANCING ACTIVITIES			
		(169,262)	(47,319)
Net increase in cash and cash equivalents		11,701	107,486
Cash and cash equivalents at 1 January	(i)	193,143	85,657
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	(i)	204,844	193,143

i) Cash and cash equivalents

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

	Note	2012 RM'000	2011 RM'000
Cash and bank balances	7	17,344	85,945
Deposits placed with licensed banks	7	187,500	107,198
		204,844	193,143

The notes on pages 39 to 62 are an integral part of these 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 and fruit juice drinks, such as specialised powders for infant and growing children, liquid milk in different packaging formats and yoghurts. The Company markets these products under various brand names such as Dutch Lady, Dutch Baby, Dutch Lady ActivGold, Frisolac, Friso and Joy.

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 26 February 2013.

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, 1965 in Malaysia. These are the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements of the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. The financial impact on transition to MFRSs is disclosed in note 23.

The Company has early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the said amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*

- MFRS 119, *Employee Benefits* (2011)
- MFRS 127, *Separate Financial Statements* (2011)
- MFRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards - Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009 -2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments* (2009)
- MFRS 9, *Financial Instruments* (2010)
- Amendments to MFRS 7, *Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures*

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

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2013, except for MFRS 10, MFRS 11, MFRS 12, MFRS 128, IC Interpretation 20, Amendments to MFRS 10, Amendments to MFRS 11 and Amendments to MFRS 12 which are not applicable to the Company.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.
- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of the above standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Company upon their first adoption.

(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 in Note 3 - estimation of impairment loss on property, plant and equipment.

2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and in preparing the opening MFRS statement of financial position of the Company at 1 January 2011 (the transition date to MFRS framework), 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 date except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

(b) Financial instruments

(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

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market which includes trade and other receivables and cash and cash equivalents.

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

The gain or 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 part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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. 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:

- long term leasehold land 70 - 99 years
- 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 end of the 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. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

(ii) Operating leases

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.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(e) Intangible assets**(i) Other intangible assets**

Other intangible assets that are acquired by the Company, which have finite useful lives, are 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 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 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

Cash and cash equivalents consist of cash on hand, balances and deposits with licensed banks.

(h) Impairment**(i) Financial assets**

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

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

(ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

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

(i) Equity instruments

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

(j) Employee benefits**(i) Short-term employee benefits**

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

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

(ii) State plans

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

(iii) Termination benefits

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

(k) Provisions

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

(l) Revenue and other income**(i) Goods sold**

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

(ii) Interest income

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

(m) Income tax

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

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

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

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 liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(n) Earnings per ordinary share

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

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

(o) Operating segments

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

3 PROPERTY, PLANT AND EQUIPMENT

	Note	Long term leasehold land RM'000	Buildings RM'000	Plant and equipment* RM'000	Capital work-in progress RM'000	Total RM'000
COST						
At 1 January 2011		5,639	43,999	112,407	14,721	176,766
Additions		-	-	372	10,510	10,882
Disposals		-	-	(3,108)	-	(3,108)
Write off		-	-	(3,099)	-	(3,099)
Transfer		-	1,886	10,605	(12,491)	-
Reclassification from intangible assets	4	-	-	-	97	97
At 31 December 2011/ 1 January 2012		5,639	45,885	117,177	12,837	181,538
Additions		-	-	445	8,836	9,281
Disposals		-	-	(1,502)	(4,205)	(5,707)
Write off		-	(143)	(4,985)	-	(5,128)
Transfer		-	595	3,337	(3,932)	-
Reclassification		-	3,738	(3,738)	-	-
At 31 December 2012		5,639	50,075	110,734	13,536	179,984

DEPRECIATION AND IMPAIRMENT LOSS

At 1 January 2011						
Accumulated depreciation		2,009	19,740	72,906	-	94,655
Accumulated impairment loss		-	-	3,210	9,098	12,308
		2,009	19,740	76,116	9,098	106,963
Depreciation for the year		75	1,819	5,068	-	6,962
Impairment loss		-	-	-	2,000	2,000
Disposals		-	-	(2,905)	-	(2,905)
Write off		-	-	(3,084)	-	(3,084)
At 31 December 2011 / 1 January 2012						
Accumulated depreciation		2,084	21,559	71,985	-	95,628
Accumulated impairment loss		-	-	3,210	11,098	14,308
		2,084	21,559	75,195	11,098	109,936
Depreciation for the year		75	2,252	5,115	-	7,442
Disposals		-	-	(1,369)	(4,205)	(5,574)
Write off		-	(51)	(4,842)	-	(4,893)
Reclassification		-	188	(188)	-	-
At 31 December 2012						
Accumulated depreciation		2,159	23,948	73,911	-	100,018
Accumulated impairment loss		-	-	-	6,893	6,893
		2,159	23,948	73,911	6,893	106,911

	Long term leasehold land RM'000	Buildings RM'000	Plant and equipment* RM'000	Capital work-in progress RM'000	Total RM'000
CARRYING AMOUNTS					
At 1 January 2011	3,630	24,259	36,291	5,623	69,803
At 31 December 2011/ 1 January 2012	3,555	24,326	41,982	1,739	71,602
At 31 December 2012	3,480	26,127	36,823	6,643	73,073

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

- 3.1 Included in property, plant and equipment of the Company are fully depreciated assets, which are still in use, with an aggregate cost of approximately RM56,654,283 (2011: RM46,187,265).
- 3.2 Due to the strategic re-alignment to its core businesses, the Company impaired the cost of four production lines that were no longer part of its focus. An amount of RM14,308,000 was charged to the statement of profit or loss and other comprehensive income in previous years. During the year, the Company disposed two production lines and wrote off one production line amounting to RM4,935,000 and RM2,480,000 respectively.
- 3.3 Long term leasehold land relates to the lease of land for the Company's factory buildings, office complex and warehouse located in Petaling Jaya. The lease will expire in 2059 and the Company does not have an option to purchase the leased land at the expiry of the lease period. Long term leasehold land are amortised over the lease term of the land.

4 INTANGIBLE ASSETS

	Note	Computer software RM'000	Capital work-in progress RM'000	Total RM'000
COST				
At 1 January 2011		7,174	371	7,545
Additions		-	823	823
Adjustment	4.1	-	(244)	(244)
Transfer		315	(315)	-
Reclassification to property, plant and equipment	3	-	(97)	(97)
At 31 December 2011/ 1 January 2012		7,489	538	8,027
Additions		-	427	427
Transfer		535	(535)	-
At 31 December 2012		8,024	430	8,454

	Note	Computer software RM'000	Capital work-in progress RM'000	Total RM'000
AMORTISATION AND IMPAIRMENT LOSS				
LOSS				
At 1 January 2011				
Accumulated amortisation		4,102	-	4,102
Accumulated impairment loss		-	-	-
		4,102	-	4,102
Amortisation for the year		1,479	-	1,479
At 31 December 2011/ 1 January 2012				
Accumulated amortisation		5,581	-	5,581
Accumulated impairment loss		-	-	-
		5,581	-	5,581
Amortisation for the year		1,554	-	1,554
Impairment loss	4.2	128	-	128
At 31 December 2012				
Accumulated amortisation		7,135	-	7,135
Accumulated impairment loss		128	-	128
		7,263	-	7,263
CARRYING AMOUNTS				
At 1 January 2011		3,072	371	3,443
At 31 December 2011/ 1 January 2012		1,908	538	2,446
At 31 December 2012		761	430	1,191

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

4.2 During the year, the Human Resource software has been impaired as it will become obsolete in 2013. An amount of RM128,000 has been charged to the statement of profit or loss and other comprehensive income.

5 INVENTORIES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Finished goods	31,726	36,806	33,362
Raw materials	50,546	50,740	36,244
Packaging materials	4,441	5,823	2,986
Spare parts	68	79	130
	86,781	93,448	72,722
Recognised in profit or loss:			
Inventories recognised as cost of sales	448,753	414,584	386,035
Write-down to net realisable value	-	435	1,541
Reversal of write-down	(664)	-	-

The write-down and reversal are included in cost of sales.

6 TRADE AND OTHER RECEIVABLES

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
TRADE				
Amount owing by related companies	6.1	2,281	6,819	5,049
Trade receivables	6.2	9,422	23,716	65,744
		11,703	30,535	70,793
NON-TRADE				
Amount owing by related companies	6.3	1,764	1,368	1,294
Other receivables		759	2,691	1,831
Deposits		1,950	2,120	1,258
		4,473	6,179	4,383
		16,176	36,714	75,176

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

6.2 In 2011, the Company 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.

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

7 CASH AND CASH EQUIVALENTS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and bank balances	17,344	85,945	46,657
Deposits placed with licensed banks	187,500	107,198	39,000
	204,844	193,143	85,657

The deposits placed with licensed banks bear on average interest at 3.13% (2011: 3.30%) per annum.

8 CAPITAL AND RESERVES

Share Capital

	Amount 31.12.2012 RM'000	Number of shares 31.12.2012 '000	Amount 31.12.2011 RM'000	Number of shares 31.12.2011 '000	Amount 1.1.2011 RM'000	Number of shares 1.1.2011 '000
Ordinary shares of RM1 each						
Authorised	100,000	100,000	100,000	100,000	100,000	100,000
Issued and fully paid	64,000	64,000	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.

Retained earnings

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. The Company is currently on the single tier system.

9 DEFERRED TAX LIABILITIES

Deferred tax liabilities (before and after offsetting) are attributable to the following:

	Assets			Liabilities			Net		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Property plant and equipment	-	-	-	(6,908)	(6,602)	(5,263)	(6,908)	(6,602)	(5,263)
Inventories	827	1,211	385	-	-	-	827	1,211	385
Receivables	63	273	345	-	-	-	63	273	345
Provisions	1,164	1,067	776	-	-	-	1,164	1,067	776
Tax assets/ (liabilities)	2,054	2,551	1,506	(6,908)	(6,602)	(5,263)	(4,854)	(4,051)	(3,757)

Movement in temporary differences during the year

	At 1.1.2011 RM'000	Recognised in profit or loss (Note 14) RM'000	At 31.12.2011/ 1.1.2012 RM'000	Recognised in profit or loss (Note 14) RM'000	At 31.12.2012 RM'000
Property, plant and equipment	(5,263)	(1,339)	(6,602)	(306)	(6,908)
Inventories	385	826	1,211	(384)	827
Receivables	345	(72)	273	(210)	63
Provisions	776	291	1,067	97	1,164
	(3,757)	(294)	(4,051)	(803)	(4,854)

10 TRADE AND OTHER PAYABLES

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
TRADE				
Amount owing to related companies	10.1	18,221	11,009	12,397
Trade payables		95,788	78,562	60,187
		114,009	89,571	72,584
NON-TRADE				
Amount owing to related companies	10.2	1,850	968	2,073
Accrued expenses		30,346	30,046	24,467
Other payables		333	1,247	514
		32,529	32,261	27,054
		146,538	121,832	99,638

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

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

11 PROVISION

	Employees' pension contribution	
	31.12,2012 RM'000	31.12.2011 RM'000
At 1 January	375	348
Addition during the year	76	27
Utilised during the year	(42)	-
Reversal during the year	(241)	-
At 31 December	168	375

Employees' Pension Contribution

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

12 PROFIT BEFORE TAX

	2012 RM'000	2011 RM'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of intangible assets	1,554	1,479
Auditors' remuneration:		
Statutory audit - current year	100	85
Other services	25	15
Depreciation of property, plant and equipment	7,442	6,962
Loss/(Gain) on disposal of property, plant and equipment	31	(1,267)
Impairment loss recognised/(reversed):		
Property, plant and equipment	-	2,000
Intangible assets	128	-
Trade receivables	(1,084)	68
Net loss/(gain) on foreign exchange		
Realised	(198)	423
Unrealised	30	(48)
Operating lease rental	4,281	3,531
Personnel expenses (including key management personnel)		
Contributions to state plans	5,098	5,084
Wages, salaries and others	48,360	44,233
Property, plant and equipment written off	235	15
Rental expense in respect of:		
Premises	1,684	1,147
Equipment	185	181
Write-down of inventories	-	435
Reversal of write-down of inventories	(664)	-

13 KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	2012 RM'000	2011 RM'000
Directors		
Fees	212	200
Remuneration	2,027	1,742
Benefits-in-kind	509	719
Other emoluments	67	97
	2,815	2,758
Other key management personnel:		
Short-term employee benefits	3,626	4,138
State plans contributions	123	165
	3,749	4,303
	6,564	7,061

Directors' remuneration includes salaries, contributions to state plans, allowance and all other Directors related expenses. Included in salaries and other emoluments of Executive Directors are contributions to state plans by the Company amounting to RM131,000 (2011: RM93,000).

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

14 INCOME TAX EXPENSE

	2012 RM'000	2011 RM'000
RECOGNISED IN PROFIT OR LOSS		
Current tax expense		
Current year	42,388	35,947
Over provision in prior year	(770)	(2,770)
	<u>41,618</u>	<u>33,177</u>
Deferred tax expense		
Origination and reversal of temporary differences	89	294
Under provision in prior year	714	-
	<u>803</u>	<u>294</u>
Total income tax expense	<u>42,421</u>	<u>33,471</u>
RECONCILIATION OF TAX EXPENSE		
Profit for the year	123,380	108,082
Total income tax expense	42,421	33,471
	<u>165,801</u>	<u>141,553</u>
Income tax calculated using Malaysian tax rate of 25%	41,450	35,388
Non-deductible expenses	1,027	853
Over provision in prior year	(56)	(2,770)
	<u>42,421</u>	<u>33,471</u>

The Company has the following tax exempt income accounts:

	2012 RM'000	2011 RM'000
Tax exempt income arising from:		
Reinvestment allowances claimed and utilised under the Income Tax Act, 1967	35,716	35,716
Tax incentives claimed under the Promotion of Investments Act, 1986	3,564	3,564
Income tax waived in accordance with Income Tax (Amendment) Act, 1999	1,533	1,533
	<u>40,813</u>	<u>40,813</u>

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

15 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2012 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	2012	2011
	RM'000	RM'000
Profit for the year	123,380	108,082
Weighted average number of ordinary shares of RM1 each in issue ('000)	64,000	64,000
Basic earnings per ordinary share (sen)	192.80	168.90

16 DIVIDENDS

Dividends recognised by the Company:

	Sen	Total	Date of
	per share	amount	payment
	(net of tax)	RM'000	
2012			
Single tier first interim 2012 ordinary	50.00	32,000	21.5.2012
Single tier first special interim 2012 ordinary	80.00	51,200	21.5.2012
Single tier second interim 2012 ordinary	50.00	32,000	27.12.2012
Single tier second special interim 2012 ordinary	80.00	51,200	27.12.2012
Total amount		166,400	
2011			
Final 2010 ordinary (10.00 sen less 25% tax)	7.50	4,800	1.7.2011
Final 2010 ordinary (5.00 sen tax exempt)	5.00	3,200	1.7.2011
First special Interim 2011 ordinary (30.00 sen less 25% tax)	22.50	14,400	1.7.2011
Interim 2011 ordinary (10.00 sen less 25% tax)	7.50	4,800	28.12.2011
Second special interim 2011 ordinary (40.00 sen less 25% tax)	30.00	19,200	28.12.2011
Total amount		46,400	

17 OPERATING SEGMENTS

The Company operates principally only in Malaysia and in one major business segment being manufacturing and distribution of a wide range of dairy products and fruit juice drinks. 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.

18 FINANCIAL INSTRUMENTS

18.1 Categories of financial instruments

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

- (a) Loans and receivables (L&R); and
- (b) Other financial liabilities measured at amortised cost (OL).

	31.12.2012		31.12.2011		1.1.2011	
	Carrying amount RM'000	L&R/ (OL) RM'000	Carrying amount RM'000	L&R/ (OL) RM'000	Carrying amount RM'000	L&R/ (OL) RM'000
Financial assets						
Trade and other receivables	16,176	16,176	36,714	36,714	75,176	75,176
Cash and cash equivalents	204,844	204,844	193,143	193,143	85,657	85,657
	221,020	221,020	229,857	229,857	160,833	160,833
Financial liabilities						
Trade and other payables	(146,538)	(146,538)	(121,832)	(121,832)	(99,638)	(99,638)

18.2 Net gains and losses arising from financial instruments

	2012 RM'000	2011 RM'000
Net gains / (losses) arising from:		
Loans and receivables	2,023	666
Financial liabilities measured at amortised cost	427	(3)
	2,450	663
	2,450	663

18.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

18.4 Credit risk

Credit risk 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 careful 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 with licensed banks.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company performs credit evaluations on customers requiring credit over a certain amount and customers are also required to place collaterals with the Company in the forms of bank guarantees, cash deposits or property charge.

In 2011, the Company entered into an arrangement with a licensed financial institution to enable certain trade customers to pay goods invoiced through a corporate purchasing card issued by the financial institution. This has resulted in the financial institution assuming the debts to the Company and credit risk is effectively transferred to the financial institution.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the carrying amounts in the statement of financial position. A significant concentration of credit risk arises in respect of the amount due from the financial institution included in trade receivables which amounted to RM6,314,000 (2011: RM6,274,000).

Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are measured at their realisable values. 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.

Trade receivables amounting to RM1,225,000 (2011: RM7,293,000) are secured by bank guarantees, cash deposits and customers' properties charged to the Company.

Impairment losses

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

	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
31 December 2012				
Not past due	5,632	-	-	5,632
Past due 0 - 30 days	2,089	-	-	2,089
Past due 31 - 90 days	327	(90)	-	237
Past due more than 90 days	9,279	(7,815)	-	1,464
	17,327	(7,905)	-	9,422
31 December 2011				
Not past due	18,392	-	-	18,392
Past due 0 - 30 days	4,913	-	-	4,913
Past due 31 - 90 days	1,435	(1,326)	-	109
Past due more than 90 days	8,173	(7,871)	-	302
	32,913	(9,197)	-	23,716
1 January 2011				
Not past due	46,266	-	-	46,266
Past due 0 - 30 days	17,845	-	-	17,845
Past due 31 - 90 days	1,307	-	-	1,307
Past due more than 90 days	9,455	(9,129)	-	326
	74,873	(9,129)	-	65,744

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

	2012 RM'000	2011 RM'000
At 1 January	9,197	9,129
Impairment loss recognised	-	68
Impairment loss reversed	(1,084)	-
Impairment loss written off	(208)	-
At 31 December	7,905	9,197

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

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.

Impairment losses

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

Deposits with licensed banks

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

Investments are only allowed in placing deposits with licensed banks.

Exposure to credit risk, credit quality and collateral

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

In view of that deposits are only placed with licensed banks, management does not expect the banks to fail to meet their obligation.

The deposits with licensed banks of the Company are unsecured.

Impairment losses

As at the end of the reporting period, there is no indication that the deposits with the licensed banks are not recoverable.

18.5 Liquidity risk

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

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

Maturity analysis

As at the end of the reporting period, the Company has no financial liabilities other than trade and other payables of RM146,538,000 (2011: RM121,832,000). The trade and other payables of the Company do not bear any contractual interest and are expected to be settled within 1 year.

18.6 Market risk

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

18.6.1 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), Great Britain Pound (GBP) and Thai Baht (THB).

Risk management objectives, policies and processes for managing the risk

Exposures to foreign currency risk are monitored on an ongoing basis. The Company does not hedge its foreign currency risk.

Exposure to foreign currency risk

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

	Denominated in						
	USD RM'000	NZD RM'000	SGD RM'000	EUR RM'000	AUD RM'000	GBP RM'000	THB RM'000
31 December 2012							
Amount owing by related companies	3,346	-	-	220	-	-	-
Cash at bank	825	-	-	-	-	-	-
Trade payables	(23,129)	(561)	(149)	(606)	(374)	-	-
Amount owing to related companies	(5,610)	-	(71)	(6,487)	-	-	(206)
	(24,568)	(561)	(220)	(6,873)	(374)	-	(206)
31 December 2011							
Amount owing by related companies	7,174	-	-	38	-	-	-
Cash at bank	2,599	-	-	-	-	-	-
Trade payables	(28,181)	(553)	(157)	(471)	(346)	-	-
Amount owing to related companies	(4,992)	-	-	(2,264)	-	-	(243)
	(23,400)	(553)	(157)	(2,697)	(346)	-	(243)
1 January 2011							
Amount owing by related companies	5,078	-	-	3	-	-	-
Cash at bank	9,776	-	-	-	-	-	-
Trade payables	(18,436)	(442)	(39)	(1,705)	(449)	(33)	-
Amount owing to related companies	(6,768)	-	-	(3,945)	-	-	(317)
	(10,350)	(442)	(39)	(5,647)	(449)	(33)	(317)

Currency risk sensitivity analysis

A 10% strengthening of the 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
USD	1,843	1,755	1,843	1,755
EUR	516	202	516	202

A 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.

18.6.2 Interest rate risk

The Company is not exposed to a risk of change in cash flow due to changes in interest rates as the Company has no short term borrowing as of the financial year end. The Company places short term deposits with 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.

18.6.3 Other price risk

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

The Company is not exposed to any other price risk.

18.7 Fair value of financial instruments

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

19 CAPITAL MANAGEMENT

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

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

20 OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Less than one year	2,670	2,658	2,733
Between one and five years	3,606	4,136	3,692
	6,276	6,794	6,425

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

21 CAPITAL COMMITMENTS

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Property, plant and equipment			
Authorised but not contracted for	25,020	17,900	16,700
Contracted but not provided for	4,263	539	471

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 includes all the Directors of the Company, and certain members of senior management of the Company.

The Company has related party relationship with its immediate holding company, related companies and key management personnel compensation (see note 13).

Related party transactions have been entered into in the normal course of business under normal trade terms. 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.

	2012 RM'000	2011 RM'000
<i>Immediate holding company</i>		
Management fees payable to		
FrieslandCampina DLMI Holding BV	45	42
<i>Related companies</i>		
Sales to:		
FrieslandCampina (Singapore) Pte. Ltd.	26,985	33,778
FrieslandCampina Hong Kong Ltd.	1,176	1,428
Purchases from:		
FrieslandCampina Nederland Holding BV	77,490	85,418
FrieslandCampina Foremost (Thailand) Plc	5,113	2,683
P.T. Frisian Flag Indonesia	23,494	8,715
Know-how, Trademark Licence and Management Support fees paid to:		
Friesland Brands BV	29,389	27,339
Shared services charges paid to:		
FrieslandCampina Service Centre Asia Pacific Sdn. Bhd.	1,963	1,731
FrieslandCampina Nederland Holding BV	2,197	1,563
Shared services fees received from:		
FrieslandCampina Service Centre Asia Pacific Sdn. Bhd.	60	60
FrieslandCampina Business Development Unit Sdn. Bhd.	60	60

23 EXPLANATION OF TRANSITION TO MFRSs

As stated in note 1(a), these are the first financial statements of the Company prepared in accordance with MFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Company's date of transition to MFRSs).

The transition to MFRSs does not have financial impact to the financial statements of the Company.

24 SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	2012 RM'000	2011 RM'000
Total retained earnings		
Realised	157,018	199,157
Unrealised	(4,884)	(4,003)
	152,134	195,154

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

In the opinion of the Directors, the financial statements set out on pages 35 to 62 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 24 on page 63 to the financial statements has been compiled in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

RAHUL JOHN COLACO

FREEK RIJNA

26 February 2013

I, Rahul John Colaco, the Director 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 35 to 63 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya on 26 February 2013.

RAHUL JOHN COLACO

Before me:

N.Madhavan Nair (No. B064)
Commissioner for Oaths
Petaling Jaya

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Dutch Lady Milk Industries Berhad, which comprise the statement of financial position as at 31 December 2012, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 35 to 62.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and 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, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 24 on page 63 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

KPMG

Firm Number: AF 0758
Chartered Accountants

Chew Beng Hong

Approval Number: 2920/02/14(J)
Chartered Accountant

Petaling Jaya, Selangor
26 February 2013



MATERIAL CONTRACTS

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

SHARE BUYBACKS

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

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

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

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

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

IMPOSITION OF SANCTIONS AND / OR PENALTIES

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

NON-AUDIT FEES

During the financial year, the Company paid RM25,000 in non-audit fees to the External Auditors.

PROFIT ESTIMATE, FORECAST OR PROJECTION

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

PROFIT GUARANTEES

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

UTILISATION OF PROCEEDS

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

other information

Particulars of Properties as at 31 December 2012

Location of property	13 & 15, Jalan Semangat, Petaling Jaya	Lot 79, Jalan 13/6, Petaling Jaya
Brief description	Factory buildings and office complex	Warehouse
Approximate land area	358,482 sq. ft.	74,135 sq. ft.
Tenure leasehold land	Leasehold land expiring in the year 2059	Leasehold land expiring in the year 2059
Date of acquisition	21.10.1960 & 19.03.1980	12.01.1989
Age of property	Between 26 years to 47 years	24 years
Net Book Value (RM'mln)	21.1	2.3

Analysis of Shareholdings as at 29 March 2013

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

Distribution Schedule of Shareholders

Size of Holdings

	No. of Shareholders	% of Shareholders	No. of Shares	% of Shareholding
Less than 100 shares	86	2.07	1,198	0.00
100 to 1,000 shares	2,405	57.94	1,485,260	2.32
1,001 to 10,000 shares	1,438	34.64	5,172,694	8.08
10,001 to 100,000 shares	202	4.87	5,644,648	8.82
100,001 to Less than 5% of issued shares	18	0.43	5,437,700	8.50
5% and above of the issued shares	2	0.05	46,258,500	72.28
Total	4,151	100.00	64,000,000	100.00

Names of 30 Largest Shareholders	No. of Shares	% of Holding
1. FrieslandCampina DLMI Malaysia Holding B.V.*	32,614,800	50.96
2. Amanahraya Trustees Berhad* - Skim Amanah Saham Bumiputera	13,643,700	21.32
3. Amanahraya Trustees Berhad as 1Malaysia	833,000	1.30
4. Kumpulan Wang Persaraan (Diperbadankan)	657,000	1.03
5. Yong Siew Lee	520,000	0.81
6. Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	436,900	0.68
7. Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account For Aun Huat & Brothers Sdn Bhd (E-IMO/BCM)	428,600	0.67
8. Yeo Khee Bee	428,200	0.67
9. Aun Huat & Brothers Sdn Bhd	416,500	0.65
10. Amanahraya Trustees Berhad - PB Balanced Fund	234,300	0.37
11. CIMB Commerce Trustee Berhad - Public Focus Select Fund	205,600	0.32
12. Public Nominees (Tempatan) Sdn Bhd - Pledged Securities Account For Chan See Min (E-KUG)	165,000	0.26
13. Quek Guat Kwee	162,000	0.25
14. Amanahraya Trustees Berhad - Amanah Saham Malaysia	157,200	0.25
15. Kumpulan Wang Simpanan Guru-Guru	156,300	0.24
16. Amanahraya Trustees Berhad - Amanah Saham Didik	149,500	0.23
17. Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA Emerging Markets Small Cap Series	136,600	0.21
18. Lee Sim Kuen	120,000	0.19
19. Chow Kok Meng	119,400	0.19
20. Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Kenanga)	111,600	0.17
21. Cartaban Nominees (Asing) Sdn Bhd - BBH And CO Boston For Fidelity Low-Priced Stock Fund	100,000	0.16
22. Tong Yoke Kim Sdn Bhd	100,000	0.16
23. Malacca Equity Nominees (Tempatan) Sdn Bhd - Exempt AN for Phillip Capital Management Sdn Bhd (EPF)	94,800	0.15

	No. of Shares	% of Holding
24. Amanahraya Trustees Berhad - Public Islamic Select Treasures Fund	94,500	0.15
25. Tan Kim Onm	89,900	0.14
26. Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (KIB)	89,600	0.14
27. Citigroup Nominees (Tempatan) Sdn Bhd - Exempt AN For Kenanga Islamic Investors Berhad	86,600	0.14
28. Foo Loke Weng	80,004	0.13
29. Tan Pak Nang	76,000	0.12
30. Cartaban Nominees (Asing) Sdn Bhd SSBT Fund W4B9 for Wasatch Frontier Emerging Small Countries Fund	66,985	0.10
*Registered in the Company's Register as Substantial Shareholders	52,574,589	82.16

Substantial Shareholders as per the Register of Substantial Shareholders

Name	Direct	%	Indirect	%
1. FrieslandCampina DLMI Malaysia Holding B.V.	32,614,800	50.96	0	0
2. Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputra	13,643,700	21.32	0	0

Directors' Shareholdings as per the Register of Directors' Holdings

Name	Direct	%	Indirect	%
1. Dato' Zainal Abidin bin Putih	-	-	-	-
2. Rahul John Colaco	-	-	-	-
3. Foo Swee Leng	-	-	-	-
4. Boey Tak Kong	-	-	-	-
5. Dato' Dr. Mhd. Nordin bin Mohd. Nor	-	-	-	-
6. Huang Shi Chin	-	-	-	-
7. Freek Rijna	-	-	-	-

proxy form



CDS Account No

No. of Shares held

DUTCH LADY MILK INDUSTRIES BERHAD (5063-V) (Incorporated in Malaysia under the then Companies Ordinances, 1940-1946)

FORM OF PROXY

I/We (NRIC / Company No)
of
being a member/members of DUTCH LADY MILK INDUSTRIES BERHAD ("the Company"), do hereby appoint #the Chairman of the Meeting or (NRIC/Company No) of
.....and / or(NRIC No.....)
of
as our proxy/proxies to vote for us and on our behalf at the Fiftieth Annual General Meeting of the Company to be held at Hotel Armada, Lorong Utara C, Section 52, 46200 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 29 May 2013 at 10.00 a.m. and any adjournment thereof, in respect of our shareholding in the manner indicated below:-

RESOLUTION NO.		*FOR	*AGAINST
Resolution 1	Approve the increase and payment of Directors' fees for the financial year ending 31 December 2013 to be paid quarterly in arrears		
Resolution 2	Re-election of Mr. Foo Swee Leng		
Resolution 3	Re-election of Mr. Huang Shi Chin		
Resolution 4	Re-appointment of Mr. Freek Rijna		
Resolution 5	Re-appointment of Messrs KPMG as the Company's Auditors		
Resolution 6	Approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
Resolution 7	Approve the retention of Mr. Boey Tak Kong as an Independent Director of the Company		

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

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

Signed this day of2013

Proportion of shareholders to be represented by proxies	
First Proxy	%
Second Proxy	%

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

Notes:-

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

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.

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

The instrument appointing the proxy, duly completed (and, if applicable, the power of attorney or other authority under which it is signed or notorially certified copy of that power of attorney) must be deposited at the Registered Office of the Company at Level 5, Quill 9, No. 112, Jalan Semangat, 46300 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than 48 hours before the time set for holding the Meeting or any adjournment thereof.

Only Members registered in the Register of Depositors on 22 May 2013 shall be entitled to attend the Meeting or appoint proxy/proxies to attend and/or vote on his behalf.

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STAMP

The Company Secretary

Dutch Lady Milk Industries Berhad (5063-V)

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

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This Annual Report is printed on environmental friendly and sustainable resources.