

Financial Statements / *Penyata Kewangan*

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Directors' Report for the year ended 31 December 2002

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2002.

Principal activities

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in Note 27 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Net profit for the year	182,585	194,031

Reserves and provisions

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

Dividends

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

- i) a final dividend of 40.39 sen per share less tax and 32.84 sen per share tax exempt totalling RM68,202,400 and RM77,000,000 respectively in respect of the year ended 31 December 2001 on 17 May 2002;
- ii) a first interim dividend of 30 sen per share less tax totalling RM50,652,000 in respect of the year ended 31 December 2002 on 19 September 2002;
- iii) special interim dividends of 12.54 sen per share less tax and 5.97 sen per share tax exempt totalling RM21,175,000 and RM14,000,000 respectively in respect of the year ended 31 December 2002 on 21 October 2002.

The final dividend recommended by the Directors in respect of the year ended 31 December 2002 is 25 sen per share less tax and 27 sen per share tax exempt totalling RM42,210,000 and RM63,315,000 respectively.

Directors of the Company

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

Director	Alternate
General (R) Tan Sri Dato' Mohd Ghazali Seth (Chairman)	
Tan Sri Dato' Ernest Zulliger	Mr. José Lopez Y. Vargas
YAM Dato' Seri Syed Anwar Jamalullail	
Mr. Jimmy Tan @ Tan Meng Kow	
Mr. Michael W. Garrett	Mr. Faïçal Krichane
Mr. José Lopez Y. Vargas	Mr. Pierre Francois Streit
Mr. Pierre Francois Streit	Mr. Faïçal Krichane

The holdings in the ordinary shares of the Company and of its related companies of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

Shareholdings in which Directors have direct interest	Number of ordinary shares of RM1.00 each			
	At 1.1.2002	Bought	Sold	At 31.12.2002
The Company				
Nestlé (Malaysia) Berhad				
General (R) Tan Sri Dato' Mohd Ghazali Seth	10,000	-	-	10,000
Mr. Jimmy Tan @ Tan Meng Kow	3,000	-	-	3,000

Holding company	Number of ordinary shares of CHF10.00 each			
	At 1.1.2002	Bought	Sold	At 31.12.2002
Nestlé S.A.				
Mr. Pierre Francois Streit	350	-	-	350

None of the other Directors holding office at 31 December 2002 had any interest in the ordinary shares of the Company and its related companies during the year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive a 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 and the fixed salary of a full time employee of related companies) 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, except for any benefit which may be deemed to have arisen in the normal course of business by virtue of Jimmy Tan @ Tan Meng Kow being a director and shareholder of companies which have distributorship contracts with Nestlé Products Sdn. Bhd., the terms of which are similar to such contracts with its other distributors.

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 issued and paid up capital of the Company during the year.

Options granted over unissued shares

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

Directors' Report for the year ended 31 December 2002

Other statutory information

Before the financial statements of the Group and 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) all current assets have been stated at the lower of cost and net realisable value.

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 Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and 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 Group and of the Company misleading.

At the date of this report there does not exist:

- i) any charge on the assets of the Group or 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 Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group 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 Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except as disclosed in the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2002 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 in accordance with a resolution of the Directors:

José Lopez Y. Vargas

Pierre Francois Streit

Petaling Jaya,
27 February 2003

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 70 to 93, are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2002 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

José Lopez Y. Vargas

Pierre Francois Streit

Petaling Jaya,
27 February 2003

Statutory Declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Pierre Francois Streit**, the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 70 to 93 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 abovenamed in Petaling Jaya on 27 February 2003.

Pierre Francois Streit

Before me:

Report of the Auditors to the members of Nestlé (Malaysia) Berhad

We have audited the financial statements set out on pages 70 to 93. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2002 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG

Firm Number: AF 0758
Chartered Accountants

Ampalavanar s/o Segarajah

Partner
Approval Number: 1293/10/04(J)

Kuala Lumpur,
27 February 2003

Balance Sheets at 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Property, plant and equipment	2	578,911	573,523	-	-
Investments in subsidiaries	3	-	-	230,424	230,474
Investment in an associate	4	1,871	1,518	3,000	3,000
Intangible assets	5	98,204	85,713	-	-
		678,986	660,754	233,424	233,474
Current assets					
Inventories	6	300,277	311,554	-	-
Trade and other receivables	7	383,753	382,425	217,235	232,325
Tax recoverable		11,451	1,800	2,547	1,800
Cash and cash equivalents	8	36,208	17,072	34	14
		731,689	712,851	219,816	234,139
Current liabilities					
Trade and other payables	9	292,996	294,718	62,197	39,572
Borrowings	10	541,352	423,396	-	-
Taxation		17,865	23,425	-	-
		852,213	741,539	62,197	39,572
Net current (liabilities)/assets		(120,524)	(28,688)	157,619	194,567
		558,462	632,066	391,043	428,041
Financed by:					
Capital and reserves					
Share capital	11	234,500	234,500	234,500	234,500
Reserves		225,334	265,991	156,543	193,541
		459,834	500,491	391,043	428,041
Minority shareholders' interests	12	2,465	2,394	-	-
Long term and deferred liabilities					
Deferred taxation		46,163	28,627	-	-
Borrowings	10	50,000	100,554	-	-
		558,462	632,066	391,043	428,041

The financial statements were approved and authorised for issue by the Board of Directors on 27 February 2003.

The notes set out on pages 75 to 93 form an integral part of, and should be read in conjunction with these financial statements.

Income Statements for the year ended 31 December 2002

	Note	Group		Company	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Revenue – sale of goods		2,479,649	2,585,708	–	–
– dividends		–	–	219,373	244,576
Cost of sales		(1,695,848)	(1,743,934)	–	–
Gross profit		783,801	841,774	219,373	244,576
Distribution costs		(223,099)	(209,308)	–	–
Administration and marketing expenses		(294,467)	(332,883)	(569)	(466)
Other operating expenses		(46,911)	(24,329)	–	–
Other operating income		86	3,521	–	–
Operating profit	14	219,410	278,775	218,804	244,110
Interest expense		(20,682)	(14,815)	(4,332)	(7,100)
Interest income		687	467	6,176	3,649
Sale of subsidiaries/businesses		34,436	–	16,625	–
Share of profit of an associate		353	275	–	–
Profit before taxation		234,204	264,702	237,273	240,659
Tax expense	16	(51,548)	(60,693)	(43,242)	(46,896)
Profit after taxation		182,656	204,009	194,031	193,763
Less: Minority interests		(71)	(60)	–	–
Net profit for the year		182,585	203,949	194,031	193,763
Basic earnings per ordinary share (sen)	17	78	87		
Dividends per ordinary share					
– gross (sen)	18	101	103		
– net (sen)	18	82	83		

The notes set out on pages 75 to 93 form an integral part of, and should be read in conjunction with these financial statements.

Consolidated Statement of changes in equity for the year ended 31 December 2002

		Non- distributable		Distributable		
	Note	Share capital RM'000	Share premium RM'000	Hedging reserve RM'000	Retained profits RM'000	Total RM'000
Group						
At 1 January 2001		234,500	33,000	3,898	223,054	494,452
Cash flow hedges						
Effective portion of changes in fair value		-	-	1,842	-	1,842
Transferred to income statement		-	-	(3,898)	-	(3,898)
Net gains and losses not recognised in the income statement		-	-	(2,056)	-	(2,056)
Net profit for the year		-	-	-	203,949	203,949
Dividends paid						
- 2000 final	18	-	-	-	(145,202)	(145,202)
- 2001 interim	18	-	-	-	(50,652)	(50,652)
At 31 December 2001/ At 1 January 2002		234,500	33,000	1,842	231,149	500,491
Cash flow hedges						
Effective portion of changes in fair value		-	-	9,629	-	9,629
Transferred to income statement		-	-	(1,842)	-	(1,842)
Net gains and losses not recognised in the income statement		-	-	7,787	-	7,787
Net profit for the year		-	-	-	182,585	182,585
Dividends paid						
- 2001 final	18	-	-	-	(145,202)	(145,202)
- 2002 interim	18	-	-	-	(50,652)	(50,652)
- 2002 special	18	-	-	-	(35,175)	(35,175)
At 31 December 2002		234,500	33,000	9,629	182,705	459,834

Note 11

The notes set out on pages 75 to 93 form an integral part of, and should be read in conjunction with these financial statements.

Statement of Changes in equity for the year ended 31 December 2002

		Non- distributable		Distributable	
	Note	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Company					
At 1 January 2001		234,500	33,000	162,632	430,132
Net profit for the year		-	-	193,763	193,763
Dividends paid					
- 2000 final	18	-	-	(145,202)	(145,202)
- 2001 interim	18	-	-	(50,652)	(50,652)
At 31 December 2001/ At 1 January 2002		234,500	33,000	160,541	428,041
Net profit for the year		-	-	194,031	194,031
Dividends paid					
- 2001 final	18	-	-	(145,202)	(145,202)
- 2002 interim	18	-	-	(50,652)	(50,652)
- 2002 special	18	-	-	(35,175)	(35,175)
At 31 December 2002		234,500	33,000	123,543	391,043
		Note 11		Note 19	

The notes set out on pages 75 to 93 form an integral part of, and, should be read in conjunction with these financial statements.

Cash Flow Statements for the year ended 31 December 2002

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash flows from operating activities				
Profit before taxation	234,204	264,702	237,273	240,659
Adjustments for:				
Amortisation of goodwill	6,127	6,135	–	–
Amortisation of development costs	1,344	–	–	–
Goodwill written off	–	4,900	–	–
Depreciation	73,984	70,291	–	–
Gain on disposal of a subsidiary/businesses	(34,436)	–	(16,625)	–
Interest expense	20,682	14,815	4,332	7,100
Interest income	(687)	(467)	(6,176)	(3,649)
(Gain)/Loss on disposal of property, plant and equipment	111	(2,650)	–	–
Property, plant and equipment written off	395	12	–	–
Share of profit of an associate	(353)	(275)	–	–
Operating profit before working capital changes	301,371	357,463	218,804	244,110
(Increase)/Decrease in working capital:				
Inventories	12,464	(98,117)	–	–
Trade and other receivables	2,030	(66,881)	15,090	15,466
Trade and other payables	1,970	29,958	22,625	(11,935)
Cash generated from operations	317,835	222,423	256,519	247,641
Income taxes paid	(49,223)	(92,295)	(43,989)	(48,389)
Interest paid	(20,578)	(14,773)	(4,332)	(7,100)
Net cash generated from operating activities	248,034	115,355	208,198	192,152
Cash flows from investing activities				
Purchase of property, plant and equipment	(80,888)	(127,418)	–	–
Proceeds from disposal of property, plant and equipment	988	5,213	–	–
Proceeds from disposal of an investment	–	1,800	–	–
Interest received	687	467	6,176	3,649
Development costs	(19,962)	(1,853)	–	–
Disposal of subsidiary/businesses, net of cash disposed	34,436	–	16,675	–
Net cash (used in)/generated from investing activities	(64,739)	(121,791)	22,851	3,649
Cash flows from financing activities				
Proceeds from borrowings	68,266	161,511	–	–
Payment of finance lease liabilities	(752)	(2,134)	–	–
Dividends paid	(231,029)	(195,854)	(231,029)	(195,854)
Net cash used in financing activities	(163,515)	(36,477)	(231,029)	(195,854)
Net increase/(decrease) in cash and cash equivalents	19,780	(42,913)	20	(53)
Cash and cash equivalents at beginning of year	16,428	59,341	14	67
Cash and cash equivalents at end of year	36,208	16,428	34	14
Cash and cash equivalents comprise				
Cash and bank balances	36,208	17,072	34	14
Overdrafts	–	(644)	–	–
	36,208	16,428	34	14

The notes set out on pages 75 to 93 form an integral part of, and, should be read in conjunction with, these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years except for the adoption of the following:

- i) MASB 20, Provisions, Contingent Liabilities and Contingent Assets, and MASB 21, Business Combination which are applied retrospectively. Comparative figures have not been restated as the previous accounting policies were in line with the accounting standards;
- ii) MASB 23, Impairment of Assets which is applied prospectively. The restatement of comparative figures and prior year adjustment are therefore not presented; and
- iii) MASB 22, Segmental Reporting and MASB 24, Financial Instruments: Disclosure and Presentation which have been adopted prospectively.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared in compliance with applicable approved accounting standards in Malaysia and International Accounting Standard (IAS) 39.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed off during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

Notes to the financial statements

(e) Intangible assets

(i) Goodwill

Goodwill on consolidation is stated at cost less accumulated amortisation. Goodwill is amortised from the date of initial recognition over its estimated useful life of twenty years. Purchased goodwill is similarly amortised.

(ii) Development costs

Expenditure on development activities for the implementation of substantially improved processes is capitalised if the process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised principally comprises direct staff related costs. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis after completion of the development so as to reflect the pattern in which related economic benefits are recognised over 5 years.

(f) Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rate is used.

(g) Depreciation

Leasehold land is amortised in equal instalments over the period of the respective leases which range from 60 to 88 years while buildings are depreciated on a straight line basis over 50 years. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Plant and machinery	6.67% – 10%
Tools, furniture and equipment	20%
Motor vehicles	20%
Information systems	33.33%

(h) Investments

Investments in subsidiaries and associates are stated at cost, less impairment loss where applicable.

(i) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(j) Liabilities

Borrowings and trade and other payables are stated at cost.

(k) Inventories

Raw materials, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with first-in, first-out being the main basis for cost. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(m) Impairment

The carrying amount of the Group's assets, other than inventories (refer note 1(k)), and financial assets (other than investments in subsidiaries and associates) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

(n) Taxation

The tax expense in the income statement represents taxation at current tax rates based on profit earned during the year.

Deferred taxation is provided on the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

(o) Retirement benefits

The Group operates a defined benefit scheme which is administered by the Nestlé Malaysia Group Retirement Scheme. The benefits payable on retirement are based on length of service and last drawn salary. Contributions to the scheme are charged to the income statement so as to spread the cost of the scheme over the employees' working lives in the Group. The contributions are determined by a qualified actuary on the basis of annual valuations using the projected unit credit method. The latest valuation was at 31 December 2002.

(p) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows:

1USD	RM3.80	(2001: 1USD	RM3.80)
1AUD	RM2.15	(2001: 1AUD	RM1.94)
1SGD	RM2.19	(2001: 1SGD	RM2.05)
1EURO	RM3.98	(2001: 1EURO	RM3.36)
1CHF	RM2.74	(2001: 1CHF	RM2.27)

Notes to the financial statements

(q) Derivative financial instruments

Derivative financial instruments such as foreign exchange contracts and commodity futures are used as hedges to manage operational exposures to foreign exchange and commodity price risks. They are entered into with high credit quality financial institutions and brokers, consistent with specific approval, limit and monitoring procedures. In accordance with its treasury and commodity purchasing policies, the Group does not hold derivative instruments for trading purposes.

The fair value of forward exchange contracts and commodity futures are calculated by reference to current forward exchange rates and commodity futures prices, respectively, for contracts with similar maturity profiles.

Foreign currency risk

The primary purpose of the Group's foreign currency hedging activities is to protect against the volatility associated with foreign currency sales and purchases of manufactured inventories, purchases of materials and other assets and liabilities created in the normal course of business. The Group primarily utilises forward foreign exchange contracts with maturities of less than twelve months to hedge firm commitments. Under this program, increases or decreases in the Group's firm commitments are partially offset by gains and losses on the hedging instruments.

Commodity price risk

Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price. Outright purchase transactions are recorded at the contracted rates. Changes in the fair value of open commodity instruments designated as effective hedges are recognised in equity until the actual purchase transactions are recognised in the financial statements.

Hedging-cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

(r) Revenue

i) Sale of goods

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(s) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of finance lease payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

Notes to the financial statements

2. Property, plant and equipment

	Long term leasehold land and buildings RM'000	Plant, machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in- progress RM'000	Total RM'000
Group						
Cost						
Opening balance	268,258	832,094	22,143	37,590	25,854	1,185,939
Additions	6,795	47,711	3,041	10,742	12,599	80,888
Disposals	(113)	(14,969)	(2,433)	(1,476)	–	(18,991)
Write off	–	(4,051)	–	–	–	(4,051)
Transfer in/(out)	511	27,059	–	420	(27,990)	–
Disposal of a subsidiary	–	(10)	–	(17)	–	(27)
Closing balance	275,451	887,834	22,751	47,259	10,463	1,243,758
Accumulated depreciation and impairment losses						
Accumulated depreciation	50,547	498,007	13,594	29,300	–	591,448
Accumulated impairment losses	917	20,032	–	19	–	20,968
Opening balance	51,464	518,039	13,594	29,319	–	612,416
Depreciation charge for the year	4,819	59,713	3,079	6,373	–	73,984
Disposals	(14)	(14,073)	(2,423)	(1,382)	–	(17,892)
Write off	–	(3,656)	–	–	–	(3,656)
Disposal of a subsidiary	–	(1)	–	(4)	–	(5)
Accumulated depreciation	55,352	539,990	14,250	34,287	–	643,879
Accumulated impairment losses	917	20,032	–	19	–	20,968
Closing balance	56,269	560,022	14,250	34,306	–	664,847
Net book value						
At 31 December 2002	219,182	327,812	8,501	12,953	10,463	578,911
At 31 December 2001	216,794	314,055	8,549	8,271	25,854	573,523
For the year ended 31 December 2001						
Depreciation charge	4,480	57,812	3,330	4,669	–	70,291

Assets under lease

Included in property, plant and equipment of the Group are information systems acquired under lease agreements costing RM1,995,000 (2001 – RM5,263,000).

3. Investments in subsidiaries

	Company	
	2002	2001
	RM'000	RM'000
Unquoted shares – at cost	230,424	230,474

Details of the subsidiaries are shown in Note 27.

4. Investment in an associate

	Group		Company	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Unquoted shares – at cost	3,000	3,000	3,000	3,000
Share of post-acquisition reserves	(1,129)	(1,482)	–	–
	1,871	1,518	3,000	3,000
Represented by:				
Group's share of net assets	1,871	1,518		

The associated company is incorporated in Malaysia.

Name	Effective ownership interest		Principal activities
	2002	2001	
	%	%	
Nihon Canpack (Malaysia) Sdn. Bhd.	20	20	Manufacture of canned drinks.

5. Intangible assets

	Goodwill	Development costs	Total
	RM'000	RM'000	RM'000
Group			
Cost			
Opening balance			
– Development costs	–	1,853	1,853
– Goodwill on consolidation	113,478	–	113,478
– Purchased goodwill	9,180	–	9,180
	122,658	1,853	124,511
Addition	–	19,962	19,962
Closing balance	122,658	21,815	144,473
Amortisation			
Opening balance	38,798	–	38,798
Amortisation charge for the year	6,127	1,344	7,471
Closing balance	44,925	1,344	46,269
Net book value			
At 31 December 2002	77,733	20,471	98,204
At 31 December 2001	83,860	1,853	85,713
For the year ended 31 December 2001			
Amortisation charge	6,135	–	6,135

Notes to the financial statements

6. Inventories

	Group	
	2002	2001
	RM'000	RM'000
Raw and packing materials	99,878	105,879
Work-in-progress	12,737	3,768
Manufactured inventories	187,662	201,907
	300,277	311,554

7. Trade and other receivables

	Group		Company	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Trade receivables	264,015	302,744	–	–
Related companies – trade	59,135	32,242	–	–
– non trade	4,598	91	–	–
Associate – trade	562	830	–	–
Subsidiaries	–	–	217,135	232,224
Other receivables, deposits and prepayments	45,814	41,993	100	101
Foreign exchange contracts	763	1,042	–	–
Commodity futures	8,866	3,483	–	–
	383,753	382,425	217,235	232,325

The amount due from subsidiaries is unsecured, non-trade in nature, subject to interest at rates ranging from 3.0% to 3.5% (2001 – 3.04% to 3.40%) and has no fixed terms of repayment.

The amounts due from related companies and an associate are unsecured, interest free and have no fixed terms of repayment.

Included in other receivables, deposits and prepayments of the Group are staff loans of RM24,838,000 (2001 – RM23,240,000), including RM18,000 (2001 – RM41,000) due from a Director of the Company in respect of a car loan made under the Nestlé corporate expatriation policy.

The foreign exchange contracts and commodity futures are designated as cash flow hedges.

7. Trade and other receivables (continued)

An unrealised gain on the foreign exchange contracts and commodity futures of RM763,000 and RM8,866,000 (2001 – RM1,042,000 and RM3,483,000) respectively was recognised in equity at year end. The gains are expected to be recognised in the income statement when the forecasted transactions occur as follows:

	Gains	
	2002 RM'000	2001 RM'000
Group		
Foreign exchange contracts		
Less than three months	763	367
Between three months and one year	–	675
	763	1,042
Commodity futures		
– Cocoa and coffee (2001 – cocoa)		
Less than three months	3,905	3,463
Between three months and one year	4,961	20
	8,866	3,483

8. Cash and cash equivalents

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash and bank balances	36,208	17,072	34	14

Notes to the financial statements

9. Trade and other payables

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Trade payables	141,570	162,662	-	-
Related companies – trade	118,653	104,388	-	-
Other payables and accrued expenses	32,773	24,985	209	95
Subsidiaries	-	-	61,988	39,477
Commodity futures	-	2,683	-	-
	292,996	294,718	62,197	39,572

The amount due to subsidiaries is unsecured, non-trade in nature, subject to interest at rates ranging from 3.00% to 3.50% (2001 – 3.04% to 3.40%) and has no fixed terms of repayment.

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment.

The commodity futures are designated as cash flow hedges.

An unrealised loss of RM Nil (2001 – RM2,683,000) on the commodity futures was recognised in equity at year end. The loss is expected to be recognised in the income statement when the forecasted transactions occur as follows:

	Losses	
	2002 RM'000	2001 RM'000
Group		
Commodity futures		
– Coffee		
Less than three months	-	1,681
Between three months and one year	-	1,002
	-	2,683

10. Borrowings

	Group	
	2002	2001
	RM'000	RM'000
Current		
Bankers' acceptances	36,200	99,000
Overdrafts	-	644
Revolving credits	190,000	123,000
Commercial papers	200,000	200,000
Medium term notes	50,000	-
Finance lease liabilities	554	752
Foreign currency loans	64,598	-
	541,352	423,396
Non-current		
Medium term notes	50,000	100,000
Finance lease liabilities	-	554
	50,000	100,554

All borrowings are unsecured. Interest rates and the maturity profile of the borrowings are as follows:

	Total	Under	1 - 2
	RM'000	1 year	years
		RM'000	RM'000
Group			
Bankers' acceptances - variable at 2.00% to 2.97% (2001-2.91% to 3.29%)	36,200	36,200	-
Revolving credits - variable at 3.00% to 3.16% (2001 - 3.10% to 3.55%)	190,000	190,000	-
Commercial papers - variable at 2.84% to 3.06% (2001 - 2.86% to 3.17%)	200,000	200,000	-
Medium term notes- fixed at 4.50% to 5.45%	100,000	50,000	50,000
Finance lease liabilities - fixed at 2.50%	554	554	-
Foreign currency loans - variable at 1.58% to 2.00% (2001 - Nil)	64,598	64,598	-
	591,352	541,352	50,000

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Payments	Interest	Principal	Payments	Interest	Principal
	2002	2002	2002	2001	2001	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Less than one year	602	48	554	816	64	752
Between one and five years	-	-	-	602	48	554
	602	48	554	1,418	112	1,306

Notes to the financial statements

11. Share capital

	Group and Company	
	2002 RM'000	2001 RM'000
Ordinary shares of RM1.00 each Authorised	300,000	300,000
Issued and fully paid	234,500	234,500

12. Minority shareholders' interests

This consists of the minority shareholders' proportion of share capital and reserves of subsidiaries.

13. Retirement benefits

The most recent actuarial valuation of the Nestlé Malaysia Group Retirement Scheme at 31 December 2002 showed that the net realisable value of the fund assets was RM71.3 million and that there was a shortfall of RM7.7 million when compared to the actuarially determined value of vested benefits.

The principal assumptions used in the actuarial valuation are:

- (i) discount rate and expected rate of return on trust fund assets would be 7.0% per annum; and
- (ii) salary increases would be 5.5% per annum.

The Group continues to fund the scheme liabilities up to the maximum tax allowable contribution.

14. Operating profit

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Operating profit is arrived at after charging:				
Amortisation of goodwill	6,127	6,135	-	-
Amortisation of development costs	1,344	-	-	-
Auditors' remuneration	185	200	7	7
Depreciation	73,984	70,291	-	-
Directors' remuneration:				
- fees	120	100	120	100
- emoluments	2,263	2,144	-	-
Goodwill written off	-	4,900	-	-
GLOBE project	32,429	-	-	-
Loss on property, plant and equipment written off	395	12	-	-
Loss on disposal of property, plant and equipment	111	-	-	-
Rental of land and buildings	20,502	18,982	-	-
Loss on foreign exchange				
- realised	-	708	-	-
and after crediting:				
Gross dividends from unquoted subsidiaries	-	-	219,373	244,576
Gain on disposal of property, plant and equipment	-	2,650	-	-
Gain on foreign exchange				
- realised	1,137	-	-	-
- unrealised	3	439	-	-

The estimated monetary value of Directors' benefits-in-kind is RM1,034,000 (2001 - RM832,000).

15. Employee information

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Staff costs	203,311	190,640	–	–

The number of employees of the Group (including Executive Directors) at the end of the year was 3,478 (2001 – 3,281).

16. Tax expense

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Current tax expense				
– current year	34,012	51,990	44,201	46,896
– prior year overprovision	–	(2,949)	(959)	–
Deferred tax expense				
– current year	17,536	11,652	–	–
	51,548	60,693	43,242	46,896

The Company and Group's effective tax rate for the current financial year is lower than the prima facie tax rate mainly due to tax exempt dividends received from a subsidiary and the utilisation of reinvestment allowances, respectively.

17. Earnings per ordinary share – group

Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of RM182.59 million (2001 – RM203.95 million) and 234.5 million (2001 – 234.5 million) ordinary shares outstanding during the year.

18. Dividends

	Group and Company	
	2002 RM'000	2001 RM'000
Interim paid:		
– first 30 sen (2001 – 30 sen) per share less tax	50,652	50,652
– special 12.54 sen (2001 – Nil) per share less tax	21,175	–
– special 5.97 sen (2001 – Nil) per share tax exempt	14,000	–
Final paid in respect of previous year:		
– 40.39 sen (2000 – 86.00 sen) per share less tax	68,202	145,202
– 32.84 sen (2000 – Nil) per share tax exempt	77,000	–
	231,029	195,854

Proposed final dividend for the financial year ended 31 December 2002

The proposed final dividend of 25 sen per share less tax and 27 sen per share tax exempt totalling RM42,210,000 and RM63,315,000 respectively has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2002.

Notes to the financial statements

19. Distributable reserves

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank up to RM117 million of its distributable reserves at 31 December 2002 if paid out as dividends.

20. Segmental information

As the principal activity of the Group is the manufacture, marketing and sale of food products in Malaysia, no segmental analysis is provided. Approximately 13% of the total sales are exports, mainly to South East Asian countries based on location of customers.

21. Contingent liabilities – unsecured

	Company	
	2002 RM'000	2001 RM'000
Guarantees relating to borrowings of a subsidiary	300,000	300,000

Litigation

A third party has filed a claim against a wholly owned subsidiary of the Company. The claim is for alleged damages which arose as result of legal proceedings (for the recovery of debts) being mistakenly filed. The subsidiary has sought and obtained the opinion of two solicitors, both of whom are of the common opinion that the plaintiff has no legal basis to maintain the claim. The Directors do not expect any material losses to arise and therefore no provision is made in the financial statements.

22. Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2002 RM'000	2001 RM'000
Less than one year	18,649	12,222
Between one and five years	69,563	67,800
More than five years	60,603	53,376
	148,815	133,398

The Group leases a number of warehouses, offices and residences under operating leases. The leases typically run for an initial period of three years, with an option to renew the leases, with one lease running for 12 years with an option to renew for another 12 years. None of the leases include contingent rentals.

23. Commitments

	Group	
	2002 RM'000	2001 RM'000
Property, plant and equipment		
Authorised but not contracted for	112,288	108,164
Contracted but not provided for in the financial statements	2,598	6,313
	114,886	114,477

24. Holding company

The holding company is Nestlé S.A., a company incorporated in Switzerland.

25. Related parties

Controlling related party relationships are as follows:

- i) The holding company as disclosed in note 24.
- ii) its subsidiaries as disclosed in note 27.

The Group also has a related party relationship with other related companies, its associate company and a Director of the Company.

Transactions with a Director

Significant transactions with companies in which a Director, Mr. Jimmy Tan @ Tan Meng Kow, has interest are as follows:

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Sales	90,074	122,411	-	-

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

The amount owing by these companies in respect of sales is RM5,476,000 (2001 – RM16,678,000).

Other related party transactions

Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Holding company				
Interest expense payable	-	-	-	-
Subsidiary companies				
Interest expense payable	-	-	4,332	7,100
Interest income receivable	-	-	5,707	3,623
Associated company				
Interest receivable	-	-	-	-

	Group		Company	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Related companies				
GLOBE project costs reimbursed	31,981	-	-	-
Sale of subsidiaries / businesses	37,000	-	16,675	-
Purchases	902,756	566,448	-	-
Purchase of plant and equipment	831	4,632	-	-
Sales	315,453	221,440	-	-
Sale of plant and equipment	-	2,149	-	-
Royalties payable	106,899	114,662	-	-

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

Notes to the financial statements

26. Financial instruments

Financial risk management objectives and policies

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. For this, the Group adopts the written risk management policies and guidelines issued by the parent company, Nestlé S.A., which sets out the overall business strategies, the tolerance to risks and the general risk management philosophy. The Group has established processes to monitor and control the hedging of transactions in a timely and accurate manner. All new guidelines and latest updates on the policies are reviewed regularly and monitored by local Management and the Board of Directors to ensure that the policy and guidelines are adhered to.

The Group's accounting policies in relation to derivative financial instruments are set out in Note 1(q).

Credit risk

Local management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount with clear approving authority and limits. All major customers are required to have collateral in the form of financial assets and/or bank guarantees.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk was represented by the carrying amount of each financial asset.

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Ringgit Malaysia. The currencies giving rise to this risk are primarily US Dollars, Swiss Francs and Euro.

The Group hedges a portion of all foreign trade receivables and trade payables denominated in foreign currency. Following the guidelines set out by the parent company, all foreign exchange contracts are for the purpose of hedging to protect the Group from foreign currency fluctuations and the Group is not allowed to trade other than for the purpose of hedging.

Commodity contract risk

The Group incurs commodity contract risk on sales and purchases of main commodities like coffee and cocoa. The contracts giving rise to this risk are primarily futures contracts and options mainly in US Dollars and British Pound Sterling.

Coffee commodity contracts are transacted by specialist based in Nestlé Australia on behalf of the Group in order to obtain better leverage whilst cocoa contracts are handled locally. Following the guidelines set out by the parent company, all commodity contracts are for the purpose of hedging to protect the Group from price fluctuations.

Interest rate risk

Interest rates of the Group's borrowings vary with reference to the prime lending rates of the banks except for medium term notes and finance lease obligations where interest rates are fixed.

The following table shows information about the enterprise's exposure to interest rate risk.

Effective interest rates and repricing analysis

	2002			
	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 to 5 years RM'000
Group				
Financial liabilities				
Bankers' acceptances	2.88	36,200	36,200	–
Revolving credits	3.07	190,000	190,000	–
Commercial papers	2.90	200,000	200,000	–
Medium term notes	5.05	100,000	50,000	50,000
Foreign currency loan	1.86	64,598	64,598	–

	2001			
	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 to 5 years RM'000
Group				
Financial liabilities				
Bankers' acceptances	2.99	99,000	99,000	–
Overdrafts	7.20	644	644	–
Revolving credits	3.14	123,000	123,000	–
Commercial papers	2.99	200,000	200,000	–
Medium term notes	5.05	100,000	–	100,000

Fair values

Recognised financial instruments

The carrying amounts in respect of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings approximate fair value due to the relatively short term nature of these financial instruments. Unrealised gains and losses in foreign exchange contracts and commodity futures are shown in notes 7 and 9.

The contracted amount and fair value of other financial instruments as at 31 December are:

	2002 Carrying amount RM'000	2002 Fair value RM'000	2001 Carrying amount RM'000	2001 Fair value RM'000
Group				
Medium term notes	100,000	101,980	100,000	102,713

Notes to the financial statements

27. Subsidiaries

The subsidiary companies all incorporated in Malaysia, are as follows:

Name	Effective ownership interest		Principal activities
	2002 %	2001 %	
Nestlé Products Sdn. Bhd.	100	100	Marketing and the sale, both locally and for export, of sweetened condensed milk, powdered milk and drinks, liquid milk and juices, instant coffee, sugar and chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products.
Nestlé Foods (Malaysia) Sdn. Bhd.	100	100	Manufacture of drinks, liquid milk and juices, instant coffee, sugar and chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products.
Nestlé Asean (Malaysia) Sdn. Bhd.	95	95	Manufacture and packaging of culinary and chocolate-based food products
Nestlé Manufacturing (Malaysia) Sdn Bhd (formerly known as Nestlé Cold Storage (Malaysia) Sdn. Bhd.)	100	100	Manufacture and packaging of ice-cream
Foods Ingredients Specialities (Malaysia) Sdn. Bhd.	-	100	Trading of flavouring ingredients and extracts for the food industry
Nestlé Cold Storage (Sabah) Sdn. Bhd.	100*	100*	Inactive
SNF Sdn. Bhd.	100~	100~	Inactive

* Interest held through Nestlé Manufacturing (Malaysia) Sdn. Bhd.

~ Interest held through Nestlé Foods (Malaysia) Sdn. Bhd.

28. Disposal of subsidiaries/businesses

On 28 May 2002, the Group incorporated three new wholly owned subsidiaries as follows:

Name of Company	Principal activities	Country of incorporation
Purina PetCare (Malaysia) Sdn. Bhd.	Distribution of pet food	Malaysia
Cereals Partners (Malaysia) Sdn. Bhd.	Distribution of breakfast cereals	Malaysia
Beverage Partners Worldwide (Malaysia) Sdn. Bhd.	Distribution of ready-to-drink beverages	Malaysia

These subsidiaries were not consolidated as control was intended to be temporary as they were incorporated with the intention to dispose certain businesses of the Group within the current financial year. These subsidiaries were subsequently disposed off on 1 July 2002.

The related businesses contributed RM3.8 million to the consolidated net profit for the year ended 31 December 2001 and RM3.4 million for the six months ended 30 June 2002.

Other than the disposals mentioned above, on 11 September 2002, the Group disposed off Food Ingredients Specialities (Malaysia) Sdn. Bhd. This business contributed RM1.9 million to the consolidated net profit for the year ended 31 December 2001 and RM0.7 million for the eight months ended 31 August 2002.

Effect of disposal

The disposal had the following effect on the Group's assets and liabilities as at 31 December 2002.

	2002 RM'000
Non current assets	
Property, plant and equipment	22
	22
Current assets	5,893
Current liabilities	(4,144)
Net assets	1,771
Gain on disposal	34,436
Consideration received, satisfied in cash	36,207
Cash disposed off	(1,771)
Net cash inflow	34,436