THE FINANCIAL PERFORMANCE ANALYSIS: A CASE STUDY OF PT SARI HUSADA Tbk. YOGYAKARTA (1998-2002)

A THESIS

Presented as Partial Fulfilment of the Requirement to Obtain the Bachelor Degrees in Management Department

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Yogyakarta, December 2004

(Musodik Fathurohman Saftari)

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Fathurohman Saftari, Musodik. (2004). **"Financial Performance Analysis: A Case Study of PT Sari Husada Tbk Yogyakarta (1998 – 2002).** Yogyakarta: Management Department. International Program. Faculty of Economics. Islamic University of Indonesia.

In this era, where economic globalisation is running, there is a tight competition among companies. A company must struggle for surviving. Not only how to make a product and get market, but it must have an ability to manage their financial performance. Because the last point is very important for a company future so PT Sari Husada Tbk manages to make its financial performance as one of the company's goal. This careful preparation of the company's financial performance leads PT Sari Husada Tbk. to become a company with a good ability on financial performance.

A research was conducted to measure the financial performance of PT Sari Husada Tbk. The analyst involves the fundamental analysis such as liquidity ratio, dept ratio, profitability ratio, activity ratio, ROI, and ROE. According to the research finding, PT Sari Husada Tbk. has high ability to manage their financial condition.

Finally, the researcher suggests that the company should maintain their financial performance and the company also should increase the financial performance in the future. Financial performance is very important for the investor and financial manager. A candidate investor or an investor would have a vision about the company, and the company's future development could be managed with the financial performance.

ABSTRAK

Musodik Fathurohman Saftari,. (2004). **"Analisa Keuangan: Studi Kasus pada PT Sari Husada Tbk Yogyakarta (1998 – 2002).** Yogyakarta: Jurusan Manajemen Program Internasional. Facultas Ekonomi. Universitas Islam Indonesia.

Pada dasa warsa ini, saat dimulainya globalisasi ekonomi, terjadi persaingan yang begitu ketat antar semua badan usaha. Suatu badan usaha harus berjuang keras agar dapat menjadi pemenang. Kiatnya bukan hanya bagaimana menghasilkan produk yang berkualitas dan kemudian memasarkannya, melainkan juga harus mempunyai kemampuan menampilkan manajemen keuangan yang bagus. Karena poin yang terakhir lini amat penting, maka PT Sari Husada Tbk. berusaha untuk menjadikan managemen keuangan sebagai salah satu tujuan usaha. Dan ternyata usahanya membuahkan hasil. PT Sari Husada Tbk., menjadi salah satu badan usaha yang memiliki kemampuan manajemen keuangan yang terpercaya.

Di PT Sari Husada Tbk., telah dilaksanakan penelitian untuk mengukur kemampuan manajemen kuangan badan usaha ini. Peneliti telah melihat secara mendalam entang hal-hal yang berhubungan dengan badan usaha: liquidity ratio, dept ratio, profitability ratio, activity ratio, ROI, and ROE. Berdasarkan hasil penelitian terbukti bahwa PT Sari Husada Tbk telah mempunyai kemampuan yang handal dalam hal memanage keuangan perusahaan.

Sebagai hasil akhir, peneliti menyarankan kepada badan usaha ini untuk mempertahankan kemampuan manajemen keuangan dan bahkan meningkatkannya untuk menyambut masa depan. Karena manajemen keuangan sangat penting bagi para investor atau calon investor, demikian juga bagi para pengendali keuangan perusahaan. Bagi para investor maupun calon investor agar memiliki visi tentang kondisi badan usaha, adapun bagi para pengendali berguna untuk proses pengembangan di masa mendatang.

CHAPTER I

INTRODUCTION

1. 1. Study Background

Basically, one wants to be free to spend his money if he or she has a lot of money. To make it balance at the same time, he or she intents to earn good money for their big expenses. This good money can be classified as profit. Profit is defined as the difference between revenues and cost[1]. Sometimes one will be confused to use his or her money. He or she should decide where the money goes, keeping, spending, saving it for interest he or she gets, or investing it.

For certain people who know economics strategy, they will invest that money to a project or a company that will give more money to them through dividends. So, without having a dirty hand or hard effort they earn more money in an easy way. But, how they invest and which project or company they choose is a hard and risk decision. Every action and decision plays an important role in determining whether that profit goal is actually realized or even a loss they get.

These people or a group of people could put a wrong investment in which they will gain nothing but loss. One of the cases why they make a mistake is that they do not know the real performance of the project or a company. A measurement of a successful project or a company depends on the company's performance from year to year. If the company performance increases for time to time, it indicates that the company is a successful company. If it happens in a

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[1] Pass, Christopher., Lowes, Bryan., (1994), *Kamus Lengkap Ekonomi, ed 2.*, English., Collins, Erlangga. P. 534.

contrary situation, it means that the company is in a bad condition and not profitable for investment.

To analyse one company is not easy. We need information that contains the situation, the strategy that is taken by manager, cash flows, financial statement, income statement, balance sheet, and the statement of net loss and dividends that affect the balance sheet of retained earning. These data already exist on the annual report issued by the company every year. The movement of the data can be analysed and then used to predict the company condition in the future, whether it goes to a better condition or a bad one.[2]

There are three important decisions made by firm. Those are investment, financing and dividend decision. Together, they determine the value of a company to its shareholders. In an endeavour to make optimal decisions, the financial manager makes use of certain analytical tools in the analysis, planning, and control activities of the firm. Financial analysis is a necessary condition, or prerequisite, for making sound financial decisions. One of the important roles of a chief financial officer is to provide accurate information on financial performance.[3]

The common way to measure or analyse financial performance is using financial ratios. A financial ratio analysis provides a popular way to evaluate a firm's financial performance. The analyst's focus is on the relationships indicated by the ratios, not on the details of their calculation. So, there are many

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[2] Revsine, Lawrence., Collins, Daniel W., Johnson, W. Bruce., (1999), *Financial Reporting and Analysis.*, New Jersey: Prentice Hall. Inc. p. 1-17

[3] Van Horne, James C. (1995). *Financial Management and Policy.* , 10th ed. New Jersey: Prentice Hall Int'l, Inc. p. 5-7

adjustments to and modifications of these basic ratios. There are four categories to be covered in financial ratio. Liquidity analysis, activity analysis, long-term debt-solvency analysis, and profitability analysis.[4]

Related to making a decision for investor to put their money, the writer thinks it is important to analyse the financial statement issued by the company. The writer takes the sample of financial statement (1998-2002) of PT Sari Husada Tbk to be analysed.

PT Sari Husada Tbk is a manufacturer of nutritious foods and drinks for babies, children, and adult. PT Sari Husada Tbk's goal is to provide healthy and wholesome foodstuffs in order to enhance the well being of the Indonesian people, from the earliest stages of growth right up to adulthood.[5]

Based on all descriptions and reasons explained above, the writer proposes the thesis title as follows: **THE FINANCIAL PERFORMANCE ANALYSIS: A CASE STUDY OF PT SARI HUSADA Tbk YOGYAKARTA (1998-2002)**

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[4] White, Gerald I., Sondhi, Ashwinpaul C., and Fried, Dov. (1998). *The Analysis and Use of Financial Statements.* , 2nd ed. New York: John Wiley & Sons, Inc. p. 150-165

[5] PT Sari Husada Tbk. (2001). *Annual Report.* P. 1

1. 2. Problem Identification

It is important to analyze the extent of the financial performance of a firm's liquidity, activity, long-term debt solvency, and profitability. This is related to the ability of a firm in increasing its profit. How the manager's strategy to manage the assets will influence how they have to become more effective and efficient. So, the management can evaluate the financial performance in order to make the right decision of the investment activities.

1. 3. Problem Formulation

According to the problem identification mentioned above, the problem formulations can be outlined as follows:

1. How is the level of the financial performance of PT Sari Husada Tbk during the last five years (1998-2002)?

1. 4. Limitation of Research Area

The financial performance can be measured not only by using the Annual report, but also by seeing from some other factors. Since there are many factors, the area of this research is limited on:

- Based on the Annual report in 1998, 1999, 2000, 2001, and 2002.

1. 5. Research Objectives

The objectives of this research are:

- To know the level of financial performance at PT Sari Husada Tbk during the last five years (1998-2002).

1.6. Research Contributions

The research will hopefully give benefits and contributions for the following parties:

1. The Company

   The result achieved in this research hopefully can give company useful information as a basis for evaluating or making decisions about the company and the relationship with it.

2. The Investor

   This research could be used as a guide for making a right investment decision.

3. The Writer

   This can be an effort in improving and applying all theories obtained during the lecturing activities to the real life and also gaining experiences and knowledge that are hopefully useful in the future.

1. 7. Definition of Term

1. Analysis

   It is the process of investigating something in order to understand something and to find out what it consists of. It is also defined as a statement of the result of such a study.

2. Ratio

   Ratio is a process of standardization to measure a firm's crucial relationships by relating inputs with outputs and facilitates comparisons of these relationships over time and across firm.

3. Evaluation

   Evaluation is a process to determine the value when one activity is in a certain period. The result of evaluation can be used to determine or to make an appropriate activity in the future.

4. Performance

   It measures the rate of increase or decrease in the net worth of a business enterprise in a given accounting period.

5. Case Study

   Case study means a direct observation process conducted in one company or more in order to obtain the data needed. Through the data, a researcher can make the report of data finding, analysis, and conclusion.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Financial Management

2.1.1. The Role of Financial Management

The financial manager plays a dynamic role in modern company's development. Financial management is concerned with the acquisition, financing, and management of assets with some overall goals in mind. Thus, according to **Van Horne,** and **Wachowics, Jr (1995:2)** the decision function of financial management can be broken down into three major areas: the investment, financing, and asset management decisions.

Three major decisions as the function of finance are:

- *Investment Decision*

  The investment decision is the most important point of the firm's three major decisions. Capital investment is the allocation of capital to investment proposals whose benefits are realized in the future. Because the future benefits are not known certainly, investment proposals necessarily involve risk. Consequently, they should be evaluated in relation to their expected return and risk, for these are the factors that affect the firm's valuation in the marketplace. Included also under the investment decision is the decision to reallocate capital when an asset no longer economically justifies the capital committed to it. Using an appropriate acceptance criterion, or required rate of return, is fundamental to the investment decision. In addition to selecting new investment, a firm must manage existing assets efficiently.

- *Financing Decision*

  The second major decision of the firm is the financing decision; the financial manager is concerned with determining the best financing mix or capital structure. If a company can change its total valuation by varying its capital structure, an optimal financing mix would exist, in which market price per share could be maximized.

- *Dividend Decision*

  The third important decision of the firm is its dividend policy. The dividend decision includes the percentage of earnings paid to stockholders in cash dividend, the stability of absolute dividend about a trend, stock dividends and splits, and the repurchase of stock. The dividend payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder wealth.

2.1.2. The Goal of The Firm

Efficient financial management requires the existence of some objectives or goal because judgement as to whether or not a financial decision is efficient must be made in light of some standard. Commonly, the goal of the firm is to maximize the wealth of the firm's present owners (or stockholders). Shareholder wealth is represented by the market price per share of the firm's common stock, which, in turn, is a reflection of the firm's investment, financing, and asset management decisions.

According to **Van Horne,** and **Wachowics, Jr (1995:4-6,11),** there are three objectives of financial management:

- Profit Maximization Versus Value Creation

  Frequently, profit maximization is offered as the proper objective of the firm. However, under this goal a manager could continue to show profit increases by merely issuing stock and using the proceeds to invest in treasury bills. For most firms, this would result in a decrease in each owner's share of profits-that is, earning per share would fall. Maximizing earnings per share, therefore, is often advocated as an improved version of profit maximization. However, maximization of earnings per share is not a fully appropriate goal because it does not specify the timing or duration of expected returns.

  Another shortcoming of the objective of maximizing earnings per share is that risk is not considered. Some investment projects are far more risky than others. As a result, the prospective stream of earnings per share would be more risky if these projects were undertaken. In addition, a company will be more or less risky depending on the amount of debt in relation to equity in its capital structure.

  Finally, this objective is not applicable for the effect of dividend policy in the market price of the stock. If the only objective is to maximize earnings per share, the firm will never pay a dividend. It can always improve earnings per share by retaining earnings and invest them at any positive rate of return although it is in small amount. To the extent that the payment of dividends can affect the value of the stock, the maximization of earnings per share will not be a satisfactory objective by itself.

  For the reason just given, an objective of maximizing earnings per share may not be the same as maximizing market price per share. The market price of a firm's stock represents the vocal judgment of all market participants to the value of a particular firm. The market price serves as a barometer for business performance; it indicates how well management is doing on behalf of its stockholders.

- Management Versus Shareholders

We may think of management as the agents of the owners. Shareholders hope that the agents will act in the shareholders' best interests, delegate decision-making authority to them. *Jensen* and *Meckling*, who were the first to develop a comprehensive *agency theory* of the firm, show that the stockholders can assure themselves that the agent (management) will make optimal decisions only if appropriate incentives are given and only if the agents are monitored. Incentives include stock options, bonuses, and perquisites, and these must be directly related to how close management decisions come to the interest of the shareholders. Monitoring is done by bonding the agent, systemically reviewing management perquisite, auditing financial statements, and limiting management decisions. These monitoring activities necessarily involve costs, an inevitable result of the separation of ownership and control of a corporation. Agency theory suggests that, particularly in large publicly owned firms, managers (the agents) may have different objectives from those of the shareholders (the principals). The shareholders can assure themselves that the managers will make decisions that maximize shareholder wealth only if appropriate incentives are given to management and only if management is monitored.

- Social Responsibility

Maximizing shareholder wealth does not imply that management should ignore social responsibility such as protecting consumer, paying fair wages to employees, maintaining fair hiring practices and safe working conditions, supporting education, and becoming involved in environmental issues such as clean air and water. Many people feel that a firm has no choice but to act in socially responsible ways. Because the criteria for social responsibility are not clearly defined, it is difficult to formulate consistent policies. Maximizing shareholder wealth does not relieve the firm from the responsibility to act in socially responsible ways.

2.2. Financial Statements

2.2.1. The Definition of Financial Statements

Every business conduct is recorded as a series of money transactions within the structure of an accounting system. The record and the system itself provide the framework that most managements use to control their businesses. Accounting system produces several fairly standard reports known as financial statements that reflect business performance.

According to **Lasher (1997:20)**, the definition of financial statement is:

> A business's financial statements are numerical representations of what it has physically been done. The idea behind statement is to give a picture of what is happening within the company and between the company and the rest of the world both physically and financially.

While according to **Fraser (1995:1-2),** the definition of financial statement is:

> The basis for understanding the financial position of a business firm and for assessing its historical and prospective financial performance is financial statement, which has the capability of making clear representatives of a firm's financial health, leading to an informed business decision.

And the definition of financial statement according to **Kieso (1995:6):**

> Financial statement is the principal means through which financial information communicated to those outside an enterprise. These statements provide the firm's history qualified in money terms.

2.2.2. The Important of Financial Statements

The financial statement become important because it can gives information that can be used to decision making.

There are two groups of users:

1. ***Internal users***

Internal users are management who are responsible with the company's handling.

2. ***External Users***

The external users are those who come from the outside of the company. They are:

- Investors

Investors have to know the company's financial statement, because from this element the investors will know how big the dividend the company can give. Besides, they can predict whether they will invest theirs capital or not.

- Government

Through the company's financial statement, government can decide the tax authorities and regulatory bodies.

- Employee

An employee or an employee candidate is a person who is interested in company's financial statement to conform whether the company has a good prospect. The relationship between them is to know whether the company can give the appropriate reward.

- Competitors

The competitors can predict the financial health of other company through its financial statements.

2.2.3. The Form of Financial Statements

2.2.3.1. Balance Sheet

The balance sheet lists everything a company owns and everything it owes at a moment in time. It shows where all of the business 's money has come from and what it has been used for. The fundamental principle is that all the sources of money and all the uses must be equal. (Lasher, 1997: 26)

A balance sheet has two sides. One sheet lists all of the company's assets and the other lists all of its liabilities and equity.

Assets = liabilities + Stockholder's equity

The reported balance sheet is one starting point for the analysis of a firm. It provides information about a firm's resources (assets) and obligations (liabilities), including liquidity and solvency. For creditors, the balance sheet provides information about the nature of assets that the firm uses as debt collateral. The balance sheet provides such data and (together with the income statement) can be used to measure the efficiency of a firm's operations and its return on investment.[6]

Element of balance sheet:[7]

- Assets

It is defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. The assets fall into three categories:

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[6] White, Sondhi, and Fried. Op.cit., p. 73-74.
[7] Ibid,. p. 16-17.

1. Current assets; consisting primarily of cash, marketable securities, account receivable, inventories, and prepaid expenses.
2. Fixed or long-term assets; comprising equipment, building, and land.
3. Other assets; all assets are not included in the firm's current assets or fixed assets, such as patent, long term investment in securities, and goodwill.

- Liabilities

Liabilities represent what the company owes to outsiders. Similarity as probable future sacrifices of economic benefits arising from present obligations of s particular entity to transfer assets or provides to other entities in the future as a result of past transactions or events.

- Stockholder's equity

Equity represents fund supplied to business by their owners. These funds are in two forms, direct investment and retained earnings. Direct investment occurs when stock is sold or an entrepreneur puts money into his or her business. Retained earnings occur when profits are kept in the business rather than being paid out to the owners. (Lasher, 1997: 34)

2.2.3.2. Income Statements

An income statement shows how much money a company earned during the accounting period, commonly a year.

A conventional income statement format:

Net income = Sales - Cost of goods sold - Expenses –

Interest Expenses - Taxes

Element of income statements:

- Sales

Sales, which are also called revenues, represent the total receipts from selling whatever the company sells in business. On the other words, sales are receipts from normal business operations.

- Cost of good sold

Cost of good sold represents spending on things that are closely associated with the production of the product or service being sold.

- Expenses

Expenses represent spending on thing that although, necessary, they are not closely related to production. These include functions like marketing and sales, accounting, personnel research, and engineering.

- Interest expenses

If the firm has borrowed money, it has to pay interest on those borrowings. It is important to realize that there is a big difference in the amount of interest various companies pay. If a business is completely financed with the owner's money, there's no interest at all.

- Tax

It is government policy to charge some money for income, property, or else that does not move. The tax line on the income statement refers to income taxes on the amount of earning before tax. Companies pay other taxes, but those appear as cost or expense item farther up on the income statement.

- Net income

Net income, which is also called earnings, belongs to the company's owners. It can either be paid out as dividend or retained in business. Retained earnings become an addition to owner's equity on the balance sheet.

2.2.3.3. The Statement of Cash Flow

The statement of cash flows reports cash receipt and payments in the period of their occurrence, classified as to operating, investing, and financing activities. It also provides supplementary disclosures about non-cash investing, and financing activities. Cash flow data help explain changes in consecutive balance sheet and supplement the information provided by the income statement.

The relative emphasis placed on cash flow is important conceptually differentiating between accounting and finance. The accounting system attempts to portray a business's financial results in a way that reflects what is physically going on. In finance we are less interested in such a representative portray, and tend to concentrate on where cash is coming from and going to.

2.3. Technique of Data Analysis

2.3.1. Financial Ratio Analysis

A primary use of the information contained in financial statements is ratio analysis. Traditional ratio analysis designed to meet the informational needs of equity investors and creditors. The objective of ratio analysis is the comparative measurement of risk and return, facilitating intelligent investment and credit decisions (White, Sondhi, and Fried, 1998: 198). Moreover, financial ratios are tools used to analyse financial condition and performance[8]. We calculate ratios because in this way we get a comparison that may prove more useful than the raw numbers by themselves.

According to **Fraser (1995:155)** the objective of financial ratio analysis can be pointed out from the viewpoint of:

a. The Creditor
A creditor is ultimately concerned with the ability of an existing or prospective borrower to make interest and principal payments on borrowed funds. The credit analyst will use the historical record of the company, as presented in the financial statement to predict the potential of the firm to satisfy future demands for cash, including debt service.
b. The Investor
The investor attempts to arrive at an estimation of a company's future earnings stream in order to attach a value to the securities being considered for purchase or liquidation. The investment analyst also uses historical financial statement data to forecast the future. In the case of investor, the ultimate objective is to determine whether the investment is sound or not.
c. The Management
Financial statement analysis from the standpoint of management relates to the entire question raised by creditors and investors because these user groups must be satisfied in order for the firm to obtain capital as needed. Management must also consider its employees, the general public, regulators, and the financial press.

Ratios, in general, involve a process of standardization.

According to **(White, Sondhi, and Fried, 1998:198)**, there are two purposes of ratios:

a. They can be used to standardize reporting methods, financial statements, and other relevant variables, allowing for comparisons over time and cross sectionals between firms.

[8] Van Horne. Op.cit., p. 148.

b. They measure a firm's crucial relationships by relating inputs (costs) with outputs (benefits) and facilitate comparisons of these relationships over time and across firms.

The usefulness of ratios depends on the ingenuity and experience of the financial analyst who employs them. By themselves, financial ratios are fairly meaningless; they must be analysed on a comparative basis. Comparing one company to similar companies and industry standards over time is crucial. This comparison may be historical, but it may also include an analysis of the future based on projected financial statements.

According to **White, Sondhi,** and **Fried**, **(1998:198),** there are four broad categories of ratio analysis measuring such relationship:

a. Liquidity analysis: Measuring the adequacy of a firm's cash resources to meet its near term cash obligations.
b. Debt Analysis: Examining the firm's capital structure in terms of the mix of its financing sources and the ability of the firm to satisfy its debt and investment obligations.
c. Profitability analysis: Measuring the net income of the firm relative to its revenues and capital.
d. Activity analysis: Evaluating the level of output generated by the assets employed by the firm.

Additional insight can be gained by common-size statements in which the various components of the financial statements are standardized by expressing them as a percentage of some bases.

2. 3. 2. Liquidity Ratio Analysis

A liquid asset is an asset that can be converted to cash quickly without having to reduce the asset price very much.[9]

Liquidity ratios are used to measure a firm's ability meet short–term obligations. They compare short–term (or current) resources available to meet these obligations. From these ratios, much insight can be obtained into the present cash solvency of the firm and the firm's ability to remain solvent in the event of adversity.[10]

a. Current Ratio

One of the most general and most frequently used ratios is the current ratio.

$$\boxed{\frac{\text{Current Assets}}{\text{Current Liabilities}}}$$

Current ratio is calculated by dividing current assets by current liabilities. It indicates the extent to which those assets expected to be covered by cash in the near future in covering current liabilities. It shows a firm's ability to cover its current liabilities with its current assets. When the ratio is high, it means the firm has higher ability to pay liabilities.[11]

[9] Brigham, Eugene F. and Houston, Joel F. (1998). *Fundamentals of Financial Management.*, 8th ed. Philadelphia: Harcourt Brace College Publishers. p. 71.
[10] Van Horne. Op.cit., p. 129.
[11] Brigham and Houston. Op.cit., p 71.

b. Quick Ratio (Acid – test ratio)

This ratio shows a firm's ability to meet current liabilities with its most liquid (quick assets). It is the same as the current ratio, except that it excludes inventories – presumably the least liquid portion of current assets – from the numerator. The ratio concentrates on cash, marketable securities, and receivables in relation to current obligations and thus provides a more penetrating measure of liquidity than does the current ratio.[12]

Quick Ratio

$$\boxed{\frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}}$$

c. Cash Ratio

$$\boxed{\frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}}$$

This ratio shows a firm's ability to meet current liabilities with its cash and marketable securities.

2. 3. 3. Debt Ratio Analysis

Debt Ratio analysis is used to Asses the relative size of a firm's debt and the firm's ability pay off the debt. When a business' debt ratios increase

[12] Van Horne and Wachowicz Jr. Op.cit. p. 129.

significantly, bondholder and lender risk increase because more creditors compete for that firm's resources if the company runs into financial trouble.[13]

a. Debt to Equity Ratio

To assess the extent to which the firm is using borrowed money, we may use several different debt ratios. The debt – to – equity ratio is computed by simply dividing the total debt of the firm (including current liabilities) by its shareholders' equity:[14]

$$\boxed{\frac{\text{Total debt}}{\text{Total equity}}}$$

b. Debt – to – Total Assets Ratio

Dividing a firm's total debt by its total assets derives this Ratio:

$$\boxed{\frac{\text{Total debt}}{\text{Total assets}}}$$

This ratio serves a similar purpose to the debt–to–equity ratio. It highlights the relative importance of debt financing to the firm by showing the percentage of the firms assets that are supported by debt financing.

The greater the percentage of financing provided by shareholders' equity, the larger the cushion of protection afforded the firm's creditors. In short,

[13] Gallagher, Timothi J., and Andrew, Jr, Joseph D. (2000). *Financial Management: Principles and Practices.*, 2nd ed. New Jersey: Prentice Hall Int'l, Inc. p. 91.
[14] White, Sondhi, and Fried. Op.cit., p. 162.

the higher the debt–to–total–assets ratio, the greater the financial risk; the lower this ratio, the lower the financial risk.[15]

2. 3. 4. Profitability Ratio Analysis

Profitability ratios are two types–those showing profitability in relation to sales and investment. Together, these ratios indicate the firm's overall effectiveness of operations.[16]

a. Profitability Ratios in Relation to Sales

- Gross profit margin

$$\boxed{\frac{\text{Net Sales} - \text{Cost of Good Sold}}{\text{Net sales}}}$$

This ratio tells us the profit of the firm related to sales, after we deduct the cost producing the goods. It is a measure of the efficiency of the firm's operations, as well as an indication of how products are priced.[17]

- Operating Profit Margin

$$\boxed{\frac{\text{Operating Income}}{\text{Net sales}}}$$

This ratio shows the profitability from operation of the firms "core" business, excluding the effects of Investment (income from affiliates or asset sales), Financing (Interest expense) and tax position.

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[15] Ibid., p. 129.
[16] Ibid., p. 139.
[17] Ibid., p. 140.

- Net Profit Margin

$$\frac{\text{Net Income}}{\text{Sales}}$$

The net profit margin is a measure of the firm's profitability of sales after taking account of all expenses and income taxes. It tells us a firm's net income per dollar of sales.

b. Profitability in Relation to Investment. Return on Investment (ROI)

Return on Investment (ROI) measures the relationship between profits and the investment required to generate them. The ROI measure can be interpreted in two ways. First, it is an indicator of management's operating efficiency; how well management is using the assets as its disposal to generate profits. Alternatively, it can be viewed as the total return accruing to the providers of capital, independent of the source of capital.[18]

- Return on Assets (ROA)

$$\frac{\text{EBIT}}{\text{Average Total Assets}}$$

We also call ROA as economics profitability. It used to know the company's capability in producing profit by using all company's assets. This ratio compares income with total assets (equivalently, total liabilities and equity capital). It measures management's ability and efficiency in

[18] White, Sondhi, and Fried. Op.cit., p. 166-167.

using the firm's assets to generate (operating) profit. It also reports the total return accruing to all providers of capital (debt and equity), independent of the source of capital.

- Return on Equity (ROE)

Another formula to measure of overall firm performance is return on equity. ROE compares net profit after taxes (minus preferred stock dividends, if any) to the equity that shareholders have invested in the firm.

$$\boxed{\frac{\text{Net profit after taxes}}{\text{Shareholders equity}}}$$

This ratio tells us the warning power on shareholders' book value investment and is frequently used in comparing two or more firms in an industry. A high ROE often reflects the firm's acceptance of strong investment opportunities and effective expense management.[19]

2. 3. 5. Activity Ratio Analysis

Activity ratios, also known as efficiency or turnover ratios, measure how effective the firm is using its assets. It will primarily focus on how effective the firm in managing two specific assets group – receivables and inventories – and its total assets, in general.[20]

A firm's operating activities require investments in both short term (inventory and accounts receivable) and long term (property, plant, and

[19] Van Horne and Wachowicz Jr. Op.cit. p. 142.
[20] Ibid., p. 132.

equipment) assets. Activity ratios describe the relationship between the firm's level of operation (usually defined as sales) and the assets needed to sustain operating activities. The higher the ratio, the more efficient the firm's operations, as relatively fewer assets are required to maintain a given level of operation (sales). These ratios are important factors affecting the performance indicators.[21]

- Short-Term Activity Ratio

  Inventory Turnover Ratio,

$$\boxed{\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}}$$

  It measures the efficiency of the firm's inventory management. A higher ratio indicates that inventory does not remain in warehouse.

- Long-Term Activity Ratios

  Fixed Asset Turnover Ratio,

$$\boxed{\frac{\text{Sales}}{\text{Fixed Assets}}}$$

  This ratio measures the efficiency of long- term capital investment. It reflects the level of sales generated by investment in productive capacity.[22]

[21] White, Sondhi, and Fried. Op.cit., p. 151.
[22] Ibid., p. 153.

Total Asset Turnover Ratio

$$\boxed{\frac{\text{Sales}}{\text{Total Assets}}}$$

Total asset turnover ratio is an overall activity measure that relates sales to total assets. This relationship provides a measure of overall investment efficiency by aggregating the joint impact of both short- and long-term assets.[23]

[23] Ibid., p. 155.

CHAPTER III

COMPANY PROFILE AND

RESEARCH METHOD

3.1 Company Profile

It is very important to take care the development of baby, because it would create his future. Not only on his childhood someone's intelligence grows up, but even when he is on his mother's womb as a foetus. This intellectual development is really important for his and her lives, for getting his opportunities, and then for contributing his existence for human live.

That is why, Sari Husada, for over 30 years, created nutritional products for babies and mothers-to-be. Sari Husada's goal is to help the nation to give birth to generations of achievers.

3.1.1. General History

PT Sari Husada Tbk was established in 1954. This institution was build as a cooperative effort between the Government of the Republic of Indonesia and the United Nations (UN) under the name of NV Saridele. The goal of this factory is to assist Indonesia in becoming a self-sufficient producer of protein products. The management of this Joint Venture was vested with Bank Industri Negara, which was subsequently known as Bank Pembangunan Indonesia. The UN, through the United Nations International Children Emergency Fund (UNICEF), provided a loan in the form of milk processing machinery that had to be repaid by the

Company in the form of soybean milk, which was directly given to the Ministry of Health of the Republic of Indonesia. Several years later, the management of NV Saridele was transferred from Bank Pembangunan Indonesia to Badan Pimpinan Umum (BPU) Farmasi Negara, which is now known as PT Kimia Farma, and the company's name was changed to Perusahaan Negara (PN) Sari Husada.

On 8 May 1972, PT Kimia Farma signed a joint venture agreement with PT Tigaraksa to establish PT Sari Husada by a decree No.10 dated 8 May 1972 under the supervision of notary public, Soeleman Ardjasasmita SH. This decree was approved by the Minister of Justice of the Republic of Indonesia under agreement No. Y.A.5/158/7 dated 28 September 1972. The latest amendment to the Articles of Association was made by decree of notary public Thomas Gonawan SH No. 6 dated 13 may 1998 and was approved by the Minister of Justice of the Republic of Indonesia in the letter of decree No. C2-9578HT.01.04.Th.98 dated 23 July 1998.

The company is engaged in the production of nutritional foods and beverages for babies, children and adults. The commercial operations were started on 1 October 1972. The company obtained a Permanent Business License from the Directorate General of Various Industry-Ministry of Industry of the Republic of Indonesia on 26 October 1998 and an industry Business License from the Capital Investment Coordinating board on 15 November 1998.

The company also has direct ownership of PT Sugizindo as its subsidiary over 99.85% of its ownership. PT Sugizindo is engaged in providing toll manufacturing, processing and packaging services for nutritional products. Office and plant are located at Citereup, Bogor Regency, West Java. The subsidiary started its commercial operations in June 1985.

3.1.2. Company Vision and Mission

Becoming the leader in providing the healthy nutritious products for baby and children in Indonesia is the vision of PT Sari Husada Tbk.

PT Sari Husada Tbk puts its mission by giving contributions for the development of the health and intellectual of baby and children in Indonesia. It is begun by providing healthy products, which are trusted and affordable. For realizing this mission, it must generate sustainable growth of the company through high quality management system and an innovative approach within a culture of high integrity. Finally, the satisfaction of the stakeholder is the biggest goal.

3.1.3. Shares until the End of 2002

The number of placed and fully paid up shares at the end of 2002 came to 188,352,433, a 39-fold increase over the number of shares at the IPO in 1983, which totaled 4,800,000. The history is listed in table 3.1.

The increasing of shares has come to the right issues, the conversion of shares derived from converted bonds, stock dividends, shares bonus, and a stock split from a nominal value of Rp 1,000 per share to Rp 500 per share. The increase in share resulting from Right Issue I in 1987 was 1,008,000 shares; from

Rights Issue II in 1990, 244,051 shares; Rights Issue III, 14,264,650 shares and Rights Issue IV, 56,693,863 shares.

Table 3.1.
The Share Publicly Listed on the Jakarta Stock Exchange and Surabaya Stock Exchange

No	Date of Listing on Indonesian Stock Exchange	Description	Total Shares
1	5 August 1983	Public Offering	1,000,000
2	16 July 1984	Distribution of Bonus Shares	40,000
3	23 February 1987	Rights Issues I	217,720
4	4 October 1990	Company Listing	4,742,280
5	4 October 1990	Distribution of Bonus Shares	240,000
6	4 October 1990	Rights Issues II	244,051
7	15 August 1991	Distribution of Shares Dividend	648,274
8	20 May 1994	Rights Issue III	14,264,650
9	28 December 1995	Shares Conversion from Convertible Bonds I	5,305,600
10	30 June 1997	Shares Conversion from Convertible Bonds I	3,136,300
11	11 June 1997	Stock Split	59,677,750
12	04-Sep-97	Distribution of Bonus Shares	29,838,875
13	27 October 1998	Rights Issue IV	56,693,863
14	3 August 2000	Distribution of Shares Dividend	7,473,809
15	11 July 2002	Distribution of Shares Dividend	4,829,261
		Total	**188,352,433**

The stock increase derived from the conversion of shares in 1995 totaled 5,305,000 shares, while the conversion the following years, 1996, resulted in 3,136,300 shares, bringing to the total additional shares resulting from conversion to 8,441,300.

Additional shares derived from stock dividends in 1984 amounted to 192,000; shares bonus from 1990 of 240,000 shares, stock dividends from 1991 of 648,274 shares and; from 1997, an additional 59,677,750 shares; from 2000, an additional 7,473,809 and shares derived from stock dividends in 2002 reached a total of 4,829,261.

A stock split in 1997 reduced the nominal value of the stock from Rp 1,000 per share to Rp 500 per share. This resulted in additional shares of 29,838,875 shares.

Table 3.2. shows the share capital and percentage of ownership at PT. Sari Husada Tbk.

Table 3.2.

The Share Capital and Percentage of Ownership at PT Sari Husada Tbk. On 31 December 2002

Shareholders	Amount	Percentage of Ownership	Shares
Nutricia International BV	76,138	80,8467	152,276,657
Other Indonesian institutions	11,452	12,1606	22,904,672
Other Indonesian public	3,299	3,5027	6,597,486
Other foreign institutions	3,276	3,4792	6,553,101
Other foreign public	11	0,0102	19,247
Directors and Commissioners	1	0,0006	1,270
Total	94,177	100,0000	188,352,433

3.1.4. Company Location

PT Sari Husada Tbk has four linking facilities:

1. Marketing Office and Jakarta Branch:

   This office is situated in TIRA Building 3rd floor, Jl. H.R. Rasuna Said Kav. B3, Jakarta Selatan 12920

2. Head Office and Factory I

   The production and administration activities are held by the head office which is located on Jl. Kusumanegara 173 Yogyakarta., The factory I is always situated on this place together with the head office.

3. Factory II

   The wider factory , called Factory II, is located on Jl Raya Yogya-Solo Km.19, Kemudo, Prambanan Klaten. This building is very wide so it is available for packing and warehousing facility.

4. Installation of Waste Process (IPAL)

   It is the big concern of this institution to take care the nature environment. So PT Sari Husada Tbk also has built IPAL, as a way to waste the residual water from the process of production tools washing. IPAL is located on Gajah Wong riverbank 300m in the north of the factory I location.

3.1.5. Board of Commissioners and Directors,

PT Sari Husada Tbk always tries to make the best organization for getting the best result. For obtaining this goal it applies 'a line and staff system' structure. This means that one manager only commands subordinates in his division and he cannot give command to other subordinates from other division. In other worlds, the organization structure of PT Sari Husada Tbk is depicted in figure 3.1.

As at 31 December 2002, the composition of the Company's Board of Commissioners and Board of Directors were as follows:

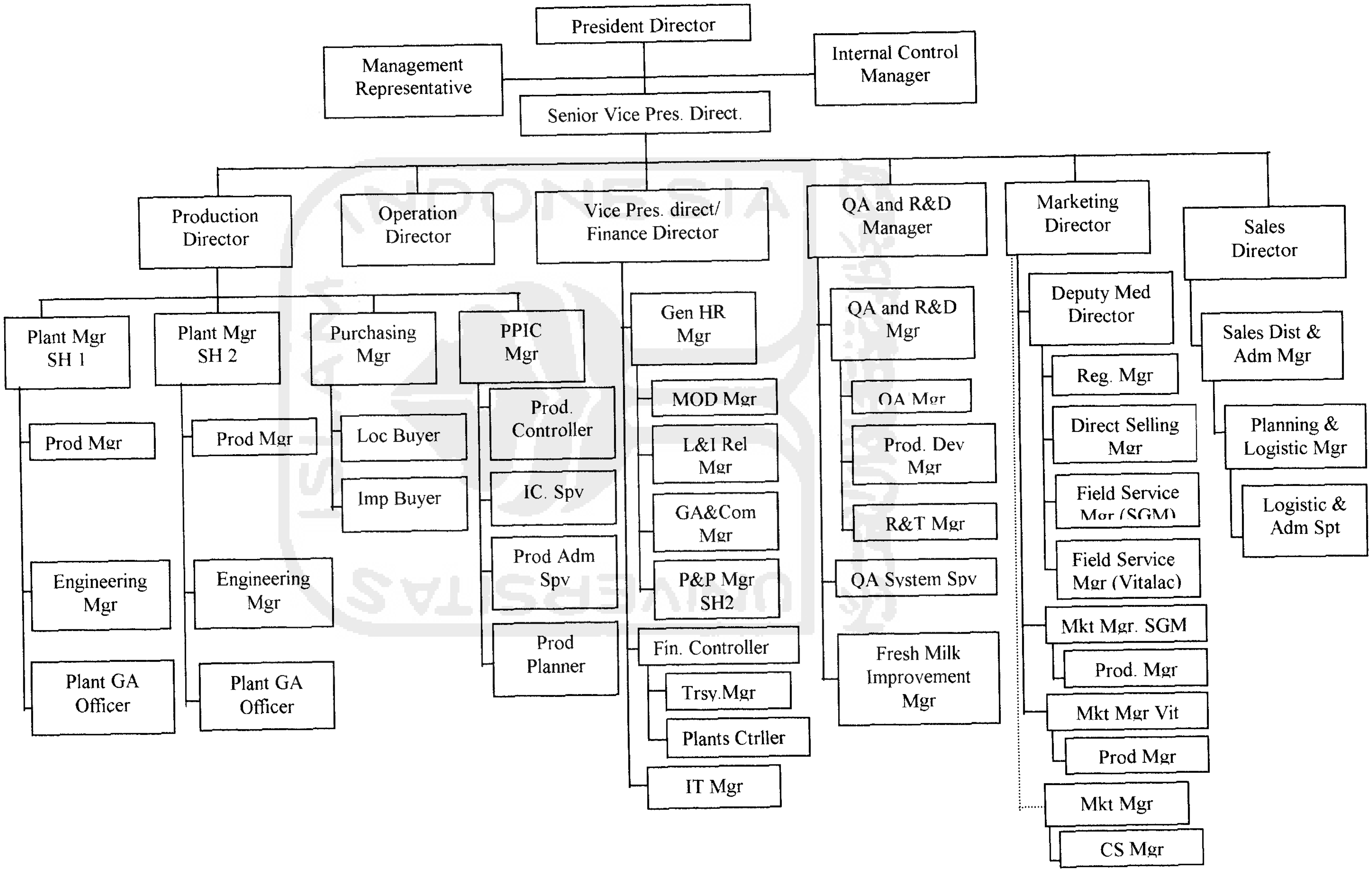
Board of Commissioners:

President Commissioner	: Johnny Wijaya
Vice President Commissioner	: Peter Kroes
Commissioner	: Wilhelmus Henricus Oomen
Independent Commissioner	: Suad Husnan

Boards of Directors:

President Director	: Sulung Hamonangan Nasution
Senior Vice President Director	: Johannes Matthjis Klompe
Vice President Director	: Felix Purwadi Mulya
Research & Development and Quality Assurance Directors	: Setyanto
Production Director	: Rahmad Suhappy
Operations Director	: Michiel Jacobus Arend van der Meer
Nominated Marketing Director	: Jenny Go

Figure 3.1. The Organization Structure of PT Sari Husada Tbk



3.1.6. Human Resource

A total employee cost of the Company for the year ended 31 December 2002 was Rp 60,242 million (2001: Rp 44,153 million). Included in the employee costs are salaries and allowance paid to the Board of Commissioners and Board of Directors of the Company amounting to Rp 12,802 million (2001: Rp 11,721 million).

As at 31 December 2002, the Company has a total of 756 employees (2001: 707 employees).

3.1.7. Production

1. Raw Material

There are three groups of raw material used in production process. They are milk, sugar, and oil. Milk consists of skim, WPC, lactose, dextrin, maltose, deminal, and FCMP. Sugar used is white sugar, while oil used are SPC-III, AMF, MVO, SBO/coconut oil.

2. Production Facilities

The production facilities or machines of PT Sari Husada Tbk Unit-1 consists of drier, drum drier, evaporator, blenders, bin fillings, and IPAL. The capacity of those machines/facilities is 40,000 ton per year. While the production facilities of PT Sari Husada Tbk unit –2 consist of drier, drum drier, blenders, bin tipping, filling and packing, warehouse and IPAL. Those machines/facilities also have production capacity for 40,000 ton per year.

3. Products History

For positioning as the pioneer in manufacturing of baby and nutritious foods, PT Sari Husada Tbk produces milk formula for babies. Later, however, this company also produces milk for growing up children, adults, or pregnant mother. The products history of PT Sari Husada Tbk can be seen in table 3.3.

3.1.8. Marketing

Inevitably, global and free market must be admitted. Entering this era, PT Sari Husada Tbk has tried to increase efficiency in all sectors. The company has successfully passed quality control, achieved high product quality throughout this year and will do so in the coming years. By reaching high quality of products targets, it will strengthen PT Sari Husada's position as a market leader for milk product, especially for middle to lower class market demands.

There are two variables affecting marketing strategy applied by PT Sari Husada Tbk. They are:

1. Controllable Variable

   a. Market Segmentation (demo, geo, and psychographics)

   The market heterogeneity, potential sales and profit, and the competitors determine segmentation for the products.

   b. Marketing mix

   It is the mix of 4P, Product, Price, Place/distribution, and Promotion

Table 3.3.
The Products History of PT Sari Husada Tbk

Year	Own Products	Kind of Milk	Licensed Products
1968	SGM	Baby formula milk, for 0-6 months	
1972	SNM	Milk porridge, for up to 4 months	
1973	FCMP	Milk powder, for adults	
1975	LLM	Baby formula milk, low lactose	Quaker Oats
1976			S-26
1979	Vitalac	Baby formula milk, for 0-6 months	
	MILCO	Growing-up milk, for 3-10 years old	
1983			Indomilk
1985			Promil
1986			Dumex
			Morinaga
1987	SGM-2	Follow-up baby formula milk, for 6 months to 3 years old	Nutricia Cereal Base
1989		Baby porridge	Cereal Nutricia
1990	Vitanova	Milk for pregnant and suckle mother	
	Lactamil	Milk powder, for pregnant and suckle mother	
		Growing-up milk	Kilimas
1991	Vitalac-2	Follow-up baby milk, for 6 months to 3 years old	Instant Birchtree
	SGM Junior	Follow-up milk	
1992			Promina
1993	Provikid		
1998		Baby porridge	Milna
2000	SGM-3	Growing-up milk	
		Baby formula milk	Bebelac-1
		Follow-up milk	Bebelac-2
		Baby formula milk	Nutrilon
	Vita Plus	Growing-up milk	
2001		Hi-calcium milk	Produgen
2002			

c. Marketing Budget

The budget for marketing of this company is around 15% to 35% of its sales. The budget considers the objective of the marketing itself, the cost structure, competitors, and product life cycle.

d. Timing

Timing is also one of the key aspects in marketing the product. Whether the company will launch new products, increase the price or lower the price should consider the right time.

2. Uncontrollable Variable

From the outside of the company, the uncontrollable variables could come. For example the competition, technology advanced, demographic change, social-cultural change, economy & politic policy, natural resources, etc.

Marketing Mix

a. Products

PT Sari Husada Tbk produces baby and nutritious foods to fulfill its consumer's needs and wants. In selling the products the company is determined by brand, package, size, color, and taste. In satisfying its consumers, the company also gives after sales service and guarantee of its products.

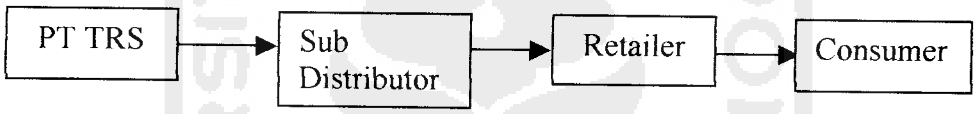
b. Price

In determining the price of its products, PT Sari Husada Tbk uses cost plus pricing method, which means price is based on total cost plus profit.

c. Place/Distribution

In deciding distribution channel, the company needs to consider what kind of distribution channel will be used. Therefore, the products will be successfully sent to the market area. PT Sari Husada Tbk uses a single distribution channel and has appointed PT Tiga Raksa Satria to handle the distribution channel, allowing for systematic and efficient process. The consistent availability of products in the market has guaranteed strong sales. The distribution channel of PT Sari Husada Tbk can be seen as follows:

FIGURE 3.2. The Distribution Channel of PT Sari Husada Tbk



d. Promotion

Regarding to the competitive products, PT Sari Husada Tbk tries to increase the sales volume by doing an effective promotion and still keeps continuing in developing products. There are many ways of promotion used by this company.

1) Personal Selling

The personal selling is useful to maintain the profitable relationship. It is done through sponsorship and community events.

2) Sales promotion

This sales promotion is useful to give information and to persuade customer to buy the products. The sales promotion used by PT Sari

Husada Tbk is such as industrial exhibition, the annually commercial exhibition and many more.

3) Advertising

The company is using electronic media such as radio, TV, cinemas, etc; press media such as magazines; newspaper; street banner affixed on both ends and calendar.

3.1.9. Financial Condition

Without any former prediction, the year of 1998 was a hard time for the Indonesian economy, which in turn had an immense effect on the business world. PT Sari Husada Tbk admitted that the company targets have not been achieved due to the external factors, such as social condition, political instability, and the decline of the purchasing power of the majority of people. As a result of integrated efficiency measures initiated over previous years, PT Sari Husada Tbk has continued to experience growth and achieved profit, despite of the negative impact of external factors beyond the company's control.

The financial report of PT Sari Husada Tbk showing its financial condition during the last five years can be seen in table 3.4, 3.5, and 3.6.

Table 3.4.
PT Sari Husada Tbk and Subsidiaries
Consolidated Balance Sheets
For The Year Ended December 2002, 2001, 2000, 1999, and 1998
(Expressed in Million Rupiah)

	2002	2001	2000	1999	1998
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	385,580	295,860	193,679	110,915	38,904
Time deposit	-	-	-	70	120
Trade receivables:					
-Third parties	6,151	4,734	6,292	7,578	6,135
-Related parties	138,346	113,757	73,239	30,877	44,825
Other receivables					
-Third parties	1,506	2,955	917	2,907	1,845
-Related parties	-	-	-	15,007	1,560
Receivables from forward currency contracts	-	13,281	-	-	-
Inventories	106,022	102,492	111,931	79,076	41,01
Prepaid taxes	-	-	2,133	6,758	8,169
Advances	3,727	3,348	17,238	1,846	13,086
Prepaid expenses	2,449	1,515	4,258	1,924	697
Total current assets	652,580	537,942	409,687	256,959	156,351
NON-CURRENT ASSETS					
Amounts due from related parties	2,457	2,742	2,664	-	-
Investments in shares	155	155	155	155	155
Fixed assets (net of accumulated depreciation of Rp 128,689 in 2002; Rp 102,348 in 2001; Rp 84,832 in 2000;Rp 68,166 in 1999; and Rp 52,625 in 1998	277,826	252,434	125,853	122,043	109,813
Excess cost over net assets of PT Sugizindo	-	-	3,993	7,987	11,981
OTHER ASSETS					
Deferred tax assets	241	205	210	-	-
Deferred charges	-	-	-	1,1	1,413
Other assets	2,261	3,054	305	1,839	1,087
Total other assets	2,502	3,259	515	2,939	2,500
Total non-current assets	282,940	258,590	133,180	133,124	124,449
TOTAL ASSETS	**935,520**	**796,532**	**542,867**	**390,083**	**280,800**

Table 3.5. (Continuous)
PT Sari Husada Tbk and Subsidiaries
Consolidated Balance Sheets
For The Year Ended December 2002, 2001, 2000, 1999, and 1998
(Expressed in Million Rupiah)

	2002	2001	2000	1999	1998
CURRENT LIABILITIES					
Bank loans	-	-	-	-	2
Trade payable					
-Third parties	52,370	33,097	22,235	9,376	11,204
-Related parties	1,298	8,764	-	5,436	945
Other payable					
-Third parties	497	1,610	718	629	1,056
-Related parties	-	-	-	-	3,609
Dividend payable	150	108	114	13	13
Taxes payable	2,487	38,765	36,342	27,356	624
Accrued expenses	15,257	22,049	14,010	9,175	4,111
Deferred gain on hedge transactions	-	-	-	-	4.933
Payable from forward foreign currency contract	3,814	-	-	-	-
Current maturities on long-term					
Lease payable	-	-	-	-	64
Total current liabilities	75,873	104,393	73,419	51,985	28,560
LONG TERM LIABILITIES					
Deferred tax liabilities, net	7,967	4,854	5,986	6,802	7,474
Amount due to related parties	10,349	3,710	5,662	-	-
Provision for employees' service and compensation	3,643	3,572	-	-	-
Total long term liabilities	21,959	12,136	11,648	6,802	7,474
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY	149	104	56	43	15
SHAREHOLDERS' EQUITY					
Share capital	94,177	91,762	91,762	88,025	88,025
Additional paid in capital	172,864	105,013	105,013	79,670	79,670
Fixed assets revaluation reserve	1,145	1,145	1,145	1,145	1,145
Appropriated retained earnings					
-General reserve	98,208	98,208	98,208	46,915	46,915
-Expansion reserve	166,413	166,413	35,002	35,002	16,700
Unappropriated retained earnings	304,732	217,358	126,614	80,496	12,295
Retained earnings	-	-	-	-	-
Total shareholders' equity	837,539	679,899	457,744	331,253	244,750
TOTAL LIABILITIES AND EQUITY	**935,52**	**796,532**	**542,867**	**390,083**	**280,800**

Table 3.6.
PT Sari Husada Tbk and Subsidiaries
Consolidated Statements of Income
For The Year Ended December 2002, 2001, 2000, 1999, and 1998
(Expressed in Million Rupiah)

	2002	2001	2000	1999	1998
Net sales	1,021,851	932,942	606,242	428,771	240,977
Cost of goods sold	-583,323	-577,314	-373,363	-253,004	-160,517
Gross profit	438,528	355,628	232,879	175,767	80,459
Operating expenses					
Selling and marketing	-76,957	-55,841	-35,086	-29,249	-23,139
General and administrative	-48,885	-32,235	-28,541	-24,693	-11,068
Total operating expenses	-125,842	-88,076	-63,627	-53,942	-34,207
Operating income	**312,686**	**267,552**	**169,252**	**121,824**	**46,252**
Other income/(expenses)					
Foreign Exchange	-70,942	35,108			
Discount on foreign currency forward contracts	-	-	2,133	-	-
Toll manufacturing income, net	-	-	-	7,294	2,394
Amortization of forward contract premium	-	-	-	-16,720	-4,350
Interest income	9,485	10,810	10,635	6,186	4,285
Gain on sales of fixed assets	1,103	2,700	613	314	545
Interest expense		-	-	-820	-27,032
Others, net	436	1,005	5,544	6,110	-6,456
Other income/(expense), net	-59,918	49,623	18,925	2,366	-30,612
Income before income tax	252,768	317,175	188,177	124,190	15,640
Income tax expense	-75,421	-92,361	-56,742	-37,660	-5,332
Income before minority interest	177,347	224,814	131,435	86,530	10,308
Minority interest in net income of Subsidiary	-47	-48	-24	-27	-5
Net Income	**177,300**	**224,766**	**131,411**	**86,503**	**10,302**

3.2. Research Method

3.2.1. Research Method

In this thesis, the researcher used the ratio analysis by categorizing liquidity, activity, and profitability analysis, for the research method. This research method also use literature study which means to gain theory to help solve the problem formulated in the research by learning the literature and books to the analysis.

3.2.2. Research Subject

The research subject was taken at PT Sari Husada Tbk, and the part of this research subject comprises of balance sheet and income statement in the year 1998-2002.

3.2.3. Research Setting

The research use reference study, the data were collected from Jakarta Stock Exchange Corner UII, library, and Internet related by PT Sari Husada Tbk., which is located in Jl. Kusumanegara 173 P.O. Box 37, Yogyakarta 55002.

3.2.4. Research Instrument

The research instruments utilized in this research were from the literature in the library and also from PT Sari Husada Tbk's annual report, from which the researcher gathered the data consisting of company profile, balance sheet, income statement and other relevant sources for this thesis.

3.2.5. Technique of Data Analysis

The analysis can be divided into four big parts:

3.2.5.1. Liquidity Ratios

a. Current Ratio

$$\boxed{\frac{\text{Current Assets}}{\text{Current Liabilities}}}$$

Current ratio is calculated by dividing current assets by current liabilities.

For example: Based on 2002 data, we can find the current asset of Rp 652,580 million and current liability of Rp 75,873 million. So, we can calculate that the Current Ratio for 2002 was 860.1%

b. Quick Ratio (Acid – Test ratio)

This ratio shows a firm's ability to meet current liabilities with its most liquid (quick assets). It is the same as the current ratio, except that it excludes inventories.

Quick Ratio

$$\boxed{\frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}}}$$

For example: Based on 2002 data, we can find the current asset of Rp 652,580 million; current liability of Rp 75,873 million, and inventory of Rp 106,022. So, we can calculate that the Quick Ratio for 2002 was 720.36%

c. Cash Ratio

$$\frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$$

This ratio shows a firm's ability to meet current liabilities with its cash and marketable securities.

For example: Based on 2002 data, we can find the cash of Rp 385,580 million; and current liability of Rp 75,873 million. So, we can calculate that the Cash Ratio for 2002 is 508,19%

3.2.5.2. Debt Ratio Analysis

a. Debt to Equity Ratio

The debt – to – equity ratio is computed by simply dividing the total debt of the firm (including current liabilities) by its shareholders' equity:

$$\frac{\text{Total debt}}{\text{Total equity}}$$

For example: Based on 2002 data, we can find the total debt of Rp 97,981 million; and total equity of Rp 837,539 million. So, we can calculate that the Debt to Equity Ratio for 2002 was 11.68%

b. Debt – to – Total Assets Ratio

Dividing a firm's total debt by its total assets result in this Ratio:

$$\frac{\text{Total debt}}{\text{Total assets}}$$

For example: Based on 2002 data, we can find the total debt of Rp 97,981 million; and total asset of Rp 935,520 million. So, we can calculate that the Debt to Total Asset for 2002 was 10.46%

3.2.5.3. Profitability Ratio Analysis

a. Profitability Ratios in Relation to Sales

- Gross Profit Margin

$$\boxed{\frac{\text{Net Sales} - \text{Cost of Good Sold}}{\text{Net sales}}}$$

This ratio tells us the profit of the firm related to sales, after we deduct the cost producing the goods.

For example: Based on 2002 data, we can find the Net Sales of Rp 1,021,851 million; and CGS of Rp 583,323 million. So, we can calculate that the Gross Profit Margin for 2002 was 42,92%

- Operating profit Margin

$$\boxed{\frac{\text{Operating Income}}{\text{Net sales}}}$$

This ratio shows the profitability from operation of the firms "core" business, excluding the effects of investment (income from affiliates or asset sales), financing (interest expense) and tax position.

For example: Based on 2002 data, we can find the Net Sales of Rp 1,021851 million; and Operating Income of Rp 312,686 million. So, we can calculate that the Operating Profit Margin for 2002 was 30.6%

- Net Profit Margin

$$\boxed{\frac{\text{Net Income}}{\text{Sales}}}$$

The net profit margin is a measure of the firm's profitability of sales after taking account of all expenses and income taxes.

For example: Based on 2002 data, we can find the Net Sales of Rp 1,021851 million; and Net Income of Rp 177,300 million. So, we can calculate that the Net Profit Margin for 2002 was 17.35%

b. Profitability in Relation to Investment. Return on Investment (ROI)

- Return on Assets (ROA)

$$\boxed{\frac{\text{EBIT}}{\text{Average Total Assets}}}$$

This ratio compares income with total assets (equivalently, total liabilities and equity capital).

For example: Based on 2002 data, we can find the EBIT of Rp 252,768 million; and Total Assets of Rp 935,520 million. So, we can calculate that the ROA for 2002 was 27.02%

- Return on Equity (ROE)

ROE compares net profit after taxes (minus preferred stock dividends, if any) to the equity that shareholders have invested in the firm.

$$\boxed{\frac{\text{Net profit after taxes}}{\text{Shareholders equity}}}$$

For example: Based on 2002 data, we can find the Net Profit of Rp 177,300 million; and Shareholders equity of Rp 837,539 million. So, we can calculate that the ROE for 2002 was 21.17%

3.2.5.4. Activity Ratio Analysis

a. Short-Term Activity Ratio

Inventory Turnover Ratio

$$\boxed{\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}}$$

It measures the efficiency of the firm's inventory management.

For example: Based on 2002 data, we can find the CGS of Rp 583,323 million; and Inventory of Rp 106,022 million. So, we can calculate the Inventory Turnover Ratio for 2002 was 5.5

b. Long-Term Activity Ratios

- Fixed Asset Turnover Ratio

$$\boxed{\frac{\text{Sales}}{\text{Fixed Assets}}}$$

This ratio measures the efficiency of long- term capital investment. It reflects the level of sales generated by investment in productive capacity.

For example: Based on 2002 data, we can find the Sales of Rp 1,021,851 million; and Fixed Asset of Rp 277,826 million. So, we can calculate that the Fixed Asset Turnover Ratio for 2002 was 3.68

- Total Asset Turnover Ratio

$$\boxed{\frac{\text{Sales}}{\text{Total Assets}}}$$

Total Asset Turnover Ratio is an overall activity measure relating Sales to Total Assets.

For example: Based on 2002 data, we can find that the sales were Rp 1,021,851 million; and total asset was Rp 935,520 million. So, we can calculate that the Total Asset Turnover Ratio for 2002 was 1.09

CHAPTER IV

DATA ANALYSIS

In business, financial guidelines determine how money is raised and spent. Although raising and spending money sound simple, a financial decision affects every aspect of a business-from how many managers can be employed, what products a company can produce, to what investments a company can make.

A financial management is essentially a combination of accounting and economics. First, financial managers use accounting information-balance sheets, income statements, and so on to analyse, plan, and allocate financial resources for business firms. Second, financial managers use economics principles to guide them in making financial decisions that are in the best interest of the firm. In other words, finance is an applied area of economics that relies on accounting for input.

All financial managers must be able to communicate, analyse, and make decisions based on information from many sources. To do this, they need to be able to analyse financial statements, forecast and plan, and determine the effect of size, risk, and timing of cash flows.[24]

In this chapter, the writer would explain about financial performance analysis of PT Sari Husada Tbk, in the years of 1998-2002.

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[24] Gallagher and Andrew, Jr. Op.cit., p. 2-3.

4.1. Liquidity Ratio

Liquidity ratios were used to measure a firm's ability to meet short-term obligations.

4.1.1. Current Ratio

Current ratio will show a firm's ability to cover its current liabilities with its current assets.

Current Ratio: $$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.1.
Current Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Current Assets		Current Liabilities		Current Ratio (%)	Changes (%)
	Rp	Changes (%)	Rp	Changes (%)		
1998	156,351	-	28,560	-	547.45	-
1999	256,959	64.35	51,985	82.02	494.29	-9.71
2000	409,687	59.44	73,419	41.23	558.01	12.89
2001	537,942	31.31	104,393	42.19	515.30	-7.65
2002	652,580	21.31	75,873	-27.32	860.10	66.91

For the industry, is a common guideline for current ratio is 2:1. It means that if the current ratio is more than 200%, it shows a healthy condition.

From the table 4.1, it shows that the highest current ratio was achieved in the year 2002, 860.10% and the lowest current ratio was 494.29%, in the year 1999.

In 1998, the current ratio of PT. Sari Husada Tbk. was 547.45%. It can be said that Rp 5.4745 of current assets guaranteed each of Rp 1.00 current liabilities. It shows that the company's condition in 1998 was in a healthy condition because it is higher than the average of current ratio standard, 200%.

In 1999, the current ratio of PT. Sari Husada Tbk. was 494.29%, decreasing 9.71%. In this year, the company was still in a good financial condition. Compared to the current ratio in the year 1998, the decrease was caused by the increase of current asset of 64.35%, lower than the increase of current liabilities of 82.02%.

In the year 2000, the current ratio was 558.01%. Increasing 12.89% from the year 1999. despite of this condition, the company's financial was still good compared to the current ratio in the year 1999. The increase of the current ratio was caused by the increase of current asset of 59.44%, higher than the increase of current liabilities of 41.19% that was almost half of the increase of current liabilities in 1999 from 1998.

In 2001, the current ratio of PT. Sari Husada Tbk. decreased by 7.65%, caused by the increase of current liabilities of 42.19%, higher than the increase of current assets of 31.31%. The current ratio became 515.30%. So, the company was still in a good financial condition.

In the year of 2002, the current ratio increased very significantly until 66.91%. The current ratio in this year was 860.10%. This was caused by the increasing of current assets of 21.31% that was on the contrary with the decreasing of the current liabilities of 27.32%.

From the analysis of the current ratio of PT. Sari Husada Tbk. from year 1998 until 2002, it can be concluded that generally, the company's finance is in a healthy condition. PT. Sari Husada Tbk. did not have any financial trouble in paying its debts with its current assets, even on the last five years, has fluctuated. But, in that current ratio, it is too high. It means there is too much investment in current; it indicates that there is inefficiency in the firm.

4.1.2. Quick Ratio (Acid-Test Ratio)

This ratio shows a firm's ability to meet current liabilities with its most liquid (quick) assets. This ratio is the same as the current ratio, except that it excludes inventories presumably the least. The company with the quick ratio more than 100% or 1:1 is considered as in a healthy condition.

Quick Ratio:

$$\boxed{\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}}$$

From the table 4.2.below, the highest quick ratio was achieved in the year 2002 that was 720.38% and the lowest quick ratio was 342.18% in the year 1999. The same as current ratio, it has fluctuated too.

Table 4.2
Quick Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Current Assets		Inventories (Rp)	Current Liabilities (Rp)	Quick Ratio (%)	Changes (%)
	Rp	Change (%)				
1998	156,351	-	41,010	28,560	403.86	-
1999	256,959	64.35	79,076	51,985	342.18	-15.27
2000	409,687	59.44	111,931	73,419	405.56	18.52
2001	537,942	31.31	102,492	104,393	417.13	2.85
2002	652,580	21.31	106,022	75,873	720.36	72.70

The quick ratio of PT. Sari Husada Tbk. in the year 1998 was 403.86%, achieved from the current assets in the year 1998, Rp 156,351 million deducted by the inventories, Rp 41,101 million and divided by the current liabilities, Rp 28,560 million. It means that each of Rp 1.00 of current liabilities guaranteed by Rp 4.0386 of quick assets.

In 1999, the quick ratio of PT. Sari Husada Tbk. was 342.18%, decrease 15.27% from the previous year 1998.

In the year 2000, the ratio was 405.56%, compared to the previous year; there was an increase of 18.52%. It was caused by the increase of current assets 59.44%, higher than the increase of inventory of 41.55%, and the increase of current liabilities of 41.23%, lower than changes in current assets.

In year 2001, the quick ratio of PT. Sari Husada Tbk. was 417.13%, it means that every Rp 1.00 of current liabilities was guaranteed by Rp 4.1713 of quick assets. The increase of quick ratio compared to year 2000 was 2.82%. In this year, the current liability is in the highest level. But the company is still in a healthy condition.

In the year 2002, the quick ratio of PT. Sari Husada Tbk. was 720.36%, In this year, the financial condition of the firm is very secure. Increasing very significantly until 72.70% from the previous year 2001. This is because of the increasing of current asset, which can lower the current liability, while inventory is relative stable.

From the analysis above, it can be concluded that the quick ratio from year to year tends to increase. From the ratios, it indicates that PT. Sari Husada Tbk. was in a healthy condition. The company did not have any difficulties to meet current liabilities with its most liquid (quick) assets, it can be seen that its quick ratio from the year 1998 to the year 2002 was higher than 100%, as the minimum standard.

4.1.3. Cash Ratio

Cash ratio shows a firm's ability to meet current liabilities with its cash and marketable securities.

Cash Ratio:

$$\boxed{\frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}}$$

The highest cash ratio of PT. Sari Husada Tbk. From the year 1998 to the year 2002 was 508.19%, achieved in year 2002 and the lowest cash ratio was achieved in the year 1998, 136.22%.

Table 4.3.
Cash Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Cash (Rp)	Change (%)	Current Liabilities	Cash Ratio (%)	Changes (%)
1998	38,904	-	28,560	136.22	-
1999	110,915	185.10	51,985	213.36	56.63
2000	193,679	74.62	73,419	263.80	23.64
2001	295,860	52.76	104,393	283.41	7.43
2002	385,580	30.33	75,873	508.19	79.31

The cash ratio in year the 1998 was 136.22%, it was achieved from the cash in the year 1998, Rp 38,904 million divided by the current liabilities, Rp 28,560 million. It can be interpreted that Rp 1.3622 of the cash guaranteed every Rp 1.00 of current liabilities.

In 1999, the cash ratio of PT. Sari Husada Tbk. was 213.36%, increasing 56.63% from the year 1998. In this year, the percentage of increasing of cash is very high, 185,10%.

In the year 2000, the cash ratio increased by 23.64% from 1999 became 263.80%. The increase of cash ratio was caused by the increase of cash, which is higher than the increase of the current liabilities.

In 2001, the cash ratio was 283.41%; it means that Rp 1.3599 of cash guaranteed every Rp 1.00 of current liabilities. Financial condition of the company is very secure.

The cash ratio of PT. Sari Husada Tbk. in the year 2002 was 508.19%, the highest at last five years. Increase 79.31% from previous year 2001.

From the analysis of cash ratio of PT. Sari Husada Tbk. from the year 1998 to 2002, it indicates that the company is a low risk company. They can pay current liabilities very easily. The company is very liquid. It can be shown from the cash ratio that was higher than 100%, as the minimum standard

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4.2. Debt Ratio Analysis

Debt ratio analysis is used to assess the relative size of a firm's debt and the firm's ability pay off the debt.

4.2.1. Debt to Equity Ratio

Debt to Equity Ratio is the percentage of debt relative to the amount of common equity of the firm.

Debt to Equity Ratio:

$$\frac{\text{Total debt}}{\text{Total equity}}$$

Table 4.4
Dept to Equity Ratio
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Total Debt		Total Equity		Debt to Equity Ratio (%)	Changes (%)
	Rp	Changes (%)	Rp	Changes (%)		
1998	36,034	-	244,750	-	14.72	-
1999	58,787	63.14	331,253	35.34	17.75	20.54
2000	85,067	44.70	457,744	38.19	18.58	4.72
2001	116,529	36.98	679,899	48.53	17.14	-7.77
2002	97,832	-16.04	837,539	23.19	11.68	-31.85

From the table 4.4 above, it shows that the highest DER of PT. Sari Husada Tbk. from the year 1998 to 2002 was 18.58%, achieved in the year 2000, and the lowest was 11.68%, achieved in the year 2002.

In the year 1998, the proportion of total liabilities of PT Sari Husada Tbk. over its total equity was Rp 36,034 of total liabilities against Rp 244,750 of total equity. The ratio was 14.72%, less than 50%. It indicates that the company degree of risk in satisfying its creditors. And this risk in the event of bankruptcy by the owners was so low.

In 1999, the debt to equity ratio of PT Sari Husada Tbk was on the level of Rp 17.75%, increasing for 20.54% from its ratio of 14.72% in 1998. This shows that the company degree of risk was still low. In this year, the total liabilities of the company experienced a significant increasing that was 63.1%. On the other hand, the total shareholders' equity increased to 35.4%.

In the year 2000, the company debt to equity ratio increased for 4.72% as the total liabilities and total shareholders' equity of the company also increased for 44.70% and 38.19% respectively. The level of debt to equity ratio of PT Sari Husada Tbk in this year was 18.58% from 17.75% of debt to equity in the previous year.

In 2001, PT Sari Husada Tbk. could lower its debt to equity ratio from 18.58% in the previous year to 17.14% in this year or 7.77% lower. The 17.14% of debt to equity ratio indicated that PT Sari Husada Tbk could sustain its effort to have low degree of risk in facing the all lenders' claims to ownership claims in the event of bankruptcy.

The Total Debt to Equity Ratio in the year of 2002 was 11.68% or decreased significantly by 31.85% from the previous year. Once again, PT Sari Husada Tbk could sustain its effort to have low degree of risk in facing the all lenders' claims to ownership claims in the event of bankruptcy.

4.2.2. Debt to Asset Ratio (DAR)

The Debt to Asset Ratio measures the percentage of the firms' assets that is financed with debt.

Debt to Asset Ratio: $\boxed{\dfrac{\text{Total debt}}{\text{Total Assets}}}$

Table 4.5
Debt to Total Assets Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Total Debt (Rp)	Total Assets		DAR (%)	Change (%)
		Rp	Changes (%)		
1998	36,034	280,800	-	12.83	-
1999	58,787	390,083	38.92	15.07	17.44
2000	85,067	542,867	39.17	15.67	3.98
2001	116,529	796,532	46.73	14.63	-6.64
2002	97,832	935,520	17.45	10.46	-28.52

From table 4.5 the debt to assets ratio of PT Sari Husada Tbk in the last 5 years was below 20%. This means that the total asset of PT Sari Husada Tbk that is financed with debts was below 20%, which also means the risk for the lender was not so high.

In 1998, the level of debt to assets ratio of PT Sari Husada Tbk was 12.83%. It means that in 1998 the total asset of the company that is financed with debt was 12.83%, a very small number, indicating that company tends to use more equity financing than debt financing.

In the year 1999, the level of its debt to assets ratio was 15.07%, or 17.44% higher than its debt to assets attained in the previous year. In this year, the total liabilities, however, increased of 63.14%; this increasing of total liabilities mostly came from the increasing of the current liabilities of the company. Especially from the company's taxes payable, which was increased of Rp 27,356 of the year. This increasing was so significant if compared with the company taxes payable in 1998 that was Rp 624. Meanwhile, there was also 38.92% increasing of the total assets of PT Sari Husada Tbk, which was from Rp 280,800 in 1998 to become Rp 390,083 in 1999.

In 2000, the number of total liabilities of PT Sari Husada Tbk increased of 44.70% compared to its total liabilities in the previous year. This is because of the increasing of the third parties trade payable and the dividend payable. Meanwhile, the total assets in this year also increased of 39.17%. The change, however, was 3.98%, came from 15.07% of the debt to assets ratio in 1999 to 15.67% of its ratio in 2000.

In the year 2001, the debt to assets ratio of PT Sari Husada Tbk decreased to 14.63%. The factors influenced the ratio; those are total liabilities and total assets, which also increased for 36.9% and 46.7% respectively.

The level of debt to assets ratio of PT Sari Husada Tbk in 2002 decreased into 10.46%. The decrease of total liabilities of PT Sari Husada Tbk from Rp 116,529 in 2001 to Rp 97,832 in 2002 or 16.04% was much lower, indicating that the company tends to use more equity financing than debt financing. Conversely, the total assets of the company in this year were 17.45% higher than the previous year, in 2001.

4.3. Profitability Ratio Analysis

Profitability ratios are two types – those showing profitability in relation with sales and profitability in relation with investment. Together, these ratios indicate the firm's overall effectiveness of operations.

4.3.1. Profitability Ratios in Relation to Sales

4.3.1.1 Gross Profit Margin Ratio

Gross Profit Margin Ratio:

$$\boxed{\frac{\text{Net Sales} - \text{Cost of Good Sold}}{\text{Net Sales}}}$$

Table 4.6. shows that the lowest ratio was 38.12%, achieved in the year 2001. The highest ratio was achieved 42.92% in the year 2002. The ratio overall were relatively in a stable condition.

The analysis began in 1998; in this year the gross margin was 33.39%. It means that every Rp 1,- net sales, PT Sari Husada Tbk. can get gross profit Rp 0.3339,-.

Table 4.6
Gross Profit Margin Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Gross Profit		Sales		Gross Profit Margin Ratio (%)	Changes (%)
	Rp	Changes (%)	Rp	Changes (%)		
1998	80,459	-	240,977	-	33.39	-
1999	175,767	118.46	428,771	77.93	40.99	22.78
2000	232,879	32.49	606,242	41.39	38.41	-6.29
2001	355,628	52.71	932,942	53.89	38.12	-0.77
2002	438,528	23.31	1,021,851	9.53	42.92	12.58

The gross profit Margin Ratio in the year 1999 was 40.99%. Increasing for 22.78% of gross margin, it is caused by the increasing of the gross profit at the amount of 118.46% and the net sales also increases at the amount of 77.93% compared with the year 1998.

In the year 2000, the Gross Profit Margin Ratio in this year was 38.41%, or decreased by 6,29% from the previous year.

In 2001, the Gross Profit Margin Ratio in this year was 38.12%, or decreased by 0.77% from year the 2000. It means that the company gets a lower profit than in previous year. It was caused by the increased of cost of good sold in the year of 2001.

In the year 2002, The Gross Profit Margin Ratio was 42.92%, or increased by 12.58% from the year 2001, meaning that the profit was higher than in the year 2001. The calculation was achieved from the gross profit in year 2002, Rp 438,528 divided by the Net Sales in year 2002, Rp 1,021,851

4.3.1.2.Operating Profit Margin Ratio

This ratio shows the profitability from operation of the firms "core" business, excluding the effects of investment (Income from affiliates or assets sales), financing (Interest Expense) and tax position.

Operating Profit Margin Ratio: $\frac{\text{Operating Income}}{\text{Net Sales}}$

Table 4.7
Operating Profit Margin Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Operating Income		Sales		Operating Profit Margin Ratio (%)	Change (%)
	Rp	Change (%)	Rp	Change (%)		
1998	46,252	-	240,977	-	19.19	-
1999	121,824	163.39	428,771	77.93	28.41	48.03
2000	169,252	38.93	606,242	41.39	27.92	-1.74
2001	267,552	58.08	932,942	53.89	28.68	2.72
2002	312,686	16.87	1,021,851	9.53	30.60	6.70

Table 4.7 shows that the lowest operating profit margin ratio of PT. Sari Husada Tbk. was achieved in the year1998 by 19.19%. The highest ratio was in the year 2002, by 30.60%.

The operating profit margin ratio in the year 1998 was 19.19%, achieved from the operating income in the year 1998, Rp 46,252 divided by the Total Sales, Rp 240,977, -. It means every rupiah of sales can produce profit of Rp 0.1919 from operation.

In the year 1999, PT Sari Husada Tbk reaches high sales, in this year the operating profit margin increase of 48.03%; from 19,19% in 1998 to become 28.41% in the year 1999.

In 2000, the increasing percentage of operating income by 38.93% was smaller than the increasing of net sales by 41.39%. It made the operating margin decrease of 1.74%, so the operating margin of PT Sari Husada Tbk in 2000 was 27.92%.

The operating profit margin ratio in the year 2001 was 28.68% or increased by 2.72%. It was achieved from the increase of operating income in the year 2001 that is higher than the increasing of total sales.

In 2002, the operating profit margin ratio in this year was 30.60%, the highest level in the last five years. It could be achieved because the net sales in 2002 increase of 9.53% from the previous year, that is higher than the cost of good sold that must be paid by the company.

The fluctuation of this ratio was stable; it indicates that the company could maintain the sales of product of the company.

4.3.1.3.Net Profit Margin Ratio

The ratio measures the firm's profitability of sales after taking account of all expenses and income taxes.

Net Profit Margin Ratio: $\boxed{\dfrac{\text{Net Income}}{\text{Sales}}}$

From the table 4.8, we can see that the highest Net Profit Margin Ratio of PT. Sari Husada Tbk. was 24.09%, achieved in the year 2001, while the lowest ratio was in the year 1998, by 4.28%.

Table 4.8
Net Profit Margin Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Net Income		Sales		Net Profit Margin Ratio (%)	Change (%)
	Rp	Changes (%)	Rp	Changes (%)		
1998	10,302	-	240,977	-	4.28	-
1999	86,503	739.67	428,771	77.93	20.17	371.91
2000	131,411	51.91	606,242	41.39	21.68	7.44
2001	224,766	71.04	932,942	53.89	24.09	11.15
2002	177,300	-21.12	1,021,851	9.53	17.35	-27.98

In 1998, the Net Profit Margin Ratio was 4.28%, achieved from the dividing of the net income year 1998, Rp 10,302 with the total sales, Rp 240,977. In this year, the expenses paid by company are very high, so the ratio is very small.

In the year 1999, the net profit margin ratio increases very significantly by 371.91%. In this year net profit margin ratio was 20.17%. It means that every rupiah, the company gets 0.2017 after all expenses were paid.

The Net Profit Margin Ratio in 2000 was 21.68% or increase of 7.44% from the previous year ratio. The increase of this ratio in the year 2000 was caused by the increase of net income, which was higher than the increase of sales.

The Net Profit Margin Ratio of PT. Sari Husada Tbk. in the year 2001 was 24.09% or increased by 11.15%. The increase of this ratio in the year 2000 was caused by the increase of 71.04% of net income, which was higher than the increase of sales by 53.89%.

In the year 2002 even though having high sales, the company faced high operating expenses and got loss on foreign exchange, so in this year the net profit margin ratio decreased 27.98% from the previous year 2001. In this year, the net profit margin ratio has reached 17.35%.

4.3.2. Profitability in Relation to Investment

4.3.2.1.Return On Assets (ROA) Analysis

This ratio used to know the company's capability in producing profit by using all company's assets.

Return On Assets (ROA): $\boxed{\dfrac{\text{EBIT}}{\text{Average Total Assets}}}$

We can see the result of calculations of ROA of PT Sari Husada Tbk from 1997-2002 in table 4.9. Generally, the return on assets of PT Sari Husada Tbk shows a quite big number, and in 1998 return on assets increased significantly to 6.32%. More clearly the analysis of the year-to-year return on assets of PT Sari Husada Tbk is as follows:

In 1998, PT Sari Husada Tbk experienced dramatically only 6.32%. In fact, another factor influencing return on assets was that total assets increased 31.23% from its total assets in 1997, which was from Rp 213,974 of its total assets in 1997 to Rp 280,800 in 1998. So, the average total asset in 1998 was Rp 247,387. Here, we could say that the overall performance of PT Sari Husada Tbk in using its assets to generate profit was not so good. However, we may not forget the other factor affecting the return on assets achievement in that year. As we know during 1997 to 1998 was a very hard time for the Indonesian economy as we experienced monetary crisis. Many companies could not survive and got bankruptcy.

Table 4.9
Return On Assets (ROA) of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	EBIT		Total Assets		Average Total Assets	Return On Assets (%)	Change (%)
	Rp	Changes (%)	Rp	Changes (%)			
1997			213,974	-			
1998	15,640	-	280,800	31.23	247,387	6.32	-
1999	124,190	694.05	390,083	38.92	335,442	37.02	485.61
2000	188,177	51.52	542,867	39.17	466,475	40.34	8.96
2001	317,175	68.55	796,532	46.73	669,700	47.36	17.40
2002	252,768	-20.31	935,520	17.45	866,026	29.19	-38.37

The return on assets of PT Sari Husada Tbk in 1999 was 37.02%; increased significantly for 485.61% compare to its return on assets in 1998. This increasing was also supported by the increasing achievement of its EBIT that was Rp 124,190, 694.05% much higher than the EBIT in 1998. The average total assets increased for 35.6%. In this year, it shows that PT Sari Husada Tbk has done a great achievement for its overall profitability in utilizing its assets to generate earnings.

In the year 2000, the returns on assets of PT Sari Husada increased 8.96%, or 40.34% in 2000. The EBIT and total assets of the company also increased for 51.91% and 39.17% respectively. Also the average total assets of the company increased for 33.1% indicating that PT Sari Husada Tbk could keep their performance in using their assets.

In 2001 the return on assets of PT Sari Husada Tbk was 47.36%, 17.40% higher than its return on assets in 2000. The return on assets achieved by the company in this year was the best it could get over the last five years. The EBIT of PT Sari Husada Tbk increased 71.04% while the total assets also increased from Rp 542,867 in 2000 to Rp 796,532, or 46.73% higher, led 50% increasing of its average total assets from Rp 446,475 in 2000 to Rp 669,700 in 2001.

In the year 2002, the return on assets of PT Sari Husada decreased 838.37% into 29.19%. In the year 2002 even though having a high of sales, the company faced high operating expenses and got loss on foreign exchange.

4.3.2.2. Return On Equity (ROE) Analysis

Return on equity (ROE) measures the firm's ability to earn a return on the owner's invested capital, and it can be formulised as:

Return On Equity (ROE): $\boxed{\dfrac{\text{Net Profit after Taxes}}{\text{Shareholders Equity}}}$

The return on equity of PT Sari Husada Tbk during 1998-2002 was always in the positive number. The highest level was 33.06% achieved in 2001 while the lowest level was 4.21% in 1998. The year-to-year analysis for the company return on equity is as follows:

Table 4.10
Return On Equity (ROE) of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Net Income		Shareholders Equity		Return On Equity (%)	Change (%)
	Rp	Change (%)	Rp	Change (%)		
1998	10,302	-	244,750	-	4.21	-
1999	86,503	739.67	331,253	35.34	26.11	520.40
2000	131,411	51.91	457,744	38.19	28.71	9.94
2001	224,766	71.04	679,899	48.53	33.06	15.15
2002	177,300	-21.12	837,539	23.19	21.17	-35.96

In 1998, the return on equity achieved by PT Sari Husada Tbk was only 4.21%. The low return on equity achieved by PT Sari Husada Tbk shows that the company only gave a small average return on the firm's capital contributions for its common stockholders. Each rupiah invested will make Rp 0.0421, -. We may not forget, however, the Indonesian economy on that time has been experiencing monetary crisis. It was a very hard time to most of the firms to keep surviving and do not get bankruptcy.

The Return On Equity in the year 1999 was 26.11%, increasing 520.40%. Derived from the dividing of net income in the year 1999, Rp 86,503 with the total shareholders equity, Rp 331,253. In this year, PT Sari Husada Tbk achieved in this year shows us that the company performance was getting better and better, and the company have done a great job to achieve that level of return on equity.

In 2000, the increasing of net income 51.91% was higher than the increasing of shareholders, making return on equity increase by 9.94%, 28.71%

The ROE in the year 2001 was 33.06%, or increased by 15.15% compared to the year 2000. It was achieved from the dividing of the net income that increased by 71.04%, Rp 224,766 with the total shareholders equity in the year 2001, Rp 679,899 or increased by 48.53% from the year 2000.

In the year 2002, PT Sari Husada faced the decreasing of return on equity from 35.95% to become 21.17%. It was caused by the increase of net income even minus that was lower than the increase of total shareholders equity. In this year, the company faced high operating expenses and got loss in foreign exchange.

4.4. Activity Ratio Analysis

4.4.1. Short-Term Activity Ratio

Inventory Turnover ratio

$$\text{Inventory Turnover Ratio: } \boxed{\frac{\text{Cost of Good Sold}}{\text{Average Inventory}}}$$

It measures the efficiency of the firm's inventory management.

From table 4.11 in the year 2002 is the most effective activity by the firm, and in the year 2000, the company had difficulties in converting inventory into sales.

Beginning in 1998, inventory turnover ratio was 5.16 times or 71 days. It means that in year, the company can convert inventory into sales in 71 days. Even though in this year the Indonesian economy had been facing monetary crisis, purchasing power of people was still high.

Table 4.11
Inventory Turnover Ratio
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Cost of Good Sold		Inventory	Average Inventory		Inventory Turnover Ratio (times)	Days in year	Changes (%)
	Rp	Change (%)	Rp	Rp	Change (%)			
1997			21,209					
1998	160,517	-	41,010	31,110		5.16	71	-
1999	253,004	57.62	79,076	60,043	93.01	4.21	87	-18.33
2000	373,363	47.57	111,931	95,504	59.06	3.91	93	-7.22
2001	577,314	54.63	102,492	107,212	12.26	5.38	68	37.74
2002	583,323	1.04	106,022	104,257	-2.76	5.60	65	3.90

In the year 1999, the ratio decreased by 18.33% into 4.21 times. After facing crisis, the increasing of the price of the product made the firm face difficulties in sales. The increasing of average inventory by 93.01% was higher than the increasing of CGS 57.62%. This situation made the inventory turnover ratio go down.

In 2000, PT Sari Husada still was facing trouble for converting inventory into sales, which was indicated by the decreasing of inventory turnover ratio by 7.22% into 3.91 times a year.

Inventory turnover ratio in the year 2001 increase from 37.74% into 5.38. In this year cost of good sold increased 53.63% higher than increasing of inventory 12.26%. In this year, the purchasing power of people in Indonesia going better and better.

In the year of 2002, the ratio increases again (3.90%). It's indicated that PT Sari Husada could maintain the activity become more effective.

4.4.2. Long-Term Activity Ratio

4.4.2.1. Fixed Asset Turnover Ratio

Fixed Asset Turnover Ratio $\boxed{\dfrac{\text{Sales}}{\text{Fixed Assets}}}$

This Ratio measures the efficiency of long-term capital investment. It reflects the level of sales generated by investment in productive capacity.

Table 4.12
Fixed Asset Turnover Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Sales		Fixed Assets		Fixed Assets Turnover Ratio (times)	Changes (%)
	Rp	Change (%)	Rp	Change (%)		
1998	240,977	-	109,813	-	2.19	-
1999	428,771	77.93	122,043	11.14	3.51	60.10
2000	606,242	41.39	125,853	3.12	4.82	37.11
2001	932,942	53.89	252,434	100.58	3.70	-23.28
2002	1,021,851	9.53	277,826	10.06	3.68	-0.48

From table 4.12, we can see that the highest fixed assets turnover ratio was 4.82 times, in year 2000. While, the lowest ratio was 2.19 times, achieved in year 1998. The explanation of Fixed Assets Turnover Ratio of PT Sari Husada Tbk. from year 1999 to 2002 is below:

In the year of 1998, PT Sari Husada Tbk had low fixed asset turnover ratio, 2.19 times. It means every Rupiah used in fixed assets can be converted into sales 2.19 times.

In 1999, the ratio increases from 60.1% into 3.51. It indicates that the activity of PT Sari Husada is more effective. It is caused by the increasing of sales (77.93%), which higher than the increase of fixed assets (11.14%).

The fixed assets turnover ratio in the year 2000 was 4.82 times or increased by 37.11% from the previous year. The increase of fixed assets turnover ratio was caused by the increase of sales, which higher than the increase of fixed assets. The total sales increased from Rp 428,771 in the year 1999 to Rp 606,242 in the year 2000 or increased by 41.39%. The fixed assets increased from Rp 122,043 in the year 1999 to Rp 125,853 in the year 2000 or increased by 3.12%.

In the year 2001, the fixed assets turnover ratio was 3.70 times, or decreased by 23.28%. The decrease of fixed assets turnover ratio was caused by the increase of fixed assets, that higher than the increase of total sales. In this year, PT Sari Husada has new factory placed in Klaten, Jawa Tengah, Indonesia. Fixed assets increased 100.58%, from Rp 125,853 in the year 2000 to Rp 252,434 in the year 2001. While, the total sales increased from 53.89%, into Rp 932,942 since the year 2000.

In the year 2002, the company still increases the fixed assets to generate the activity of production. In this year, the fixed assets turnover ratio decreased 0.48% to 3.68 times. It was caused by the increase of fixed assets (10.06%), which was higher than the increase of sales (9.53%) since the year 2001.

4.4.2.2. Total Assets Turnover Ratio

Total Asset Turnover Ratio:

$$\boxed{\frac{\text{Sales}}{\text{Total Assets}}}$$

Total Assets Turnover Ratio is an overall activity measure relating sales to total assets. It measures the overall investment efficiency by aggregating the joint impact of both short and long-term assets. More efficiently the firm operates, the better the return.

Table 4.13
Total Assets Turnover Ratio of
PT. Sari Husada Tbk. And Subsidiary
Year 1998 – 2002
(In Million Rupiahs)

Year	Sales		Total Assets		TATO Ratio (times)	Changes (%)
	Rp	Change (%)	Rp	Change (%)		
1998	240,977	-	280,800	-	0.86	-
1999	428,771	77.93	390,083	38.92	1.10	28.08
2000	606,242	41.39	542,867	39.17	1.12	1.60
2001	932,942	53.89	796,532	46.73	1.17	4.88
2002	1,021,851	9.53	935,520	17.45	1.09	-6.74

Table 4.13 shows that the highest Total Assets Turnover Ratio was in the year 2001, 1.17 times and the lowest ratio was 0.86 times, in the year 1998.

The explanation of Total Assets Turnover Ratio of PT. Sari Husada Tbk. from year 1998 to 2002:

In 1998, the total asset turnover ratio of PT Sari Husada was 0.86; it means that in a year, the company could produce 0.86 times of sales revenue with every Rp 1.00 of assets. Putting another way, the rupiah amount of sales was 0.83 times of the amount of its assets. In the year 1998 was the lowest ratio; it means the activity of the company not yet effective. There still capacity to increase the productivity.

In the year 1999 the total asset turnover ratio was 1.10 times, it increased 28.08% from 1998. Increasing ratio of total asset turnover in this year indicates that the activity of the company more effective. The increasing of sales (77.93%) higher than the increase of total assets (38.92%) was caused by the increase of the ratio.

The total asset turnover ratio in the year 2000 was 1.12 times or increased by 1.60%, compared to the previous year. The company had already used all the capacity of production in this year.

In the year 2001, the total assets turnover ratio was 1.17 times, or increased by 4.88%. The increase of total assets turnover ratio was caused by the increase of sales, which higher than the increase of total assets. In this year, PT Sari Husada has a new factory placed in Klaten, Jawa Tengah, Indonesia. The total assets of the company increased 46.73%, from Rp 542,867 in the year 2000 to Rp 796,532 in the year 2001. While, the total sales increased from 53.89%, into Rp 932,942 from the previous year 2000.

In the year 2002, the company increased the total assets to generate the activity of production. In this year, the total assets turnover ratio decrease 6.74%, becoming 1.09 times. It was caused by the increase of total assets (17.45%), which was higher than the increase of sales (9.53%) from the year 2001.

From the analysis above, both Fixed Assets Turnover Ratio and Total Assets Turnover Ratio was relatively stable or in a healthy condition.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

Based on the financial performance analysis of PT. Sari Husada Tbk. from the year 1998 to 2002, it can be concluded that:

1. Generally, the company has good ability to meet its short – term obligations. It can be shown from the liquidity ratio, that was higher than the minimum standard, especially in the year 2000 until 2002. With high ratio PT Sari Husada is a very liquid company. The liquidity ratios always tend to increase year to year. The highest liquidity ratios: Current Ratio, Quick Ratio, and Cash Ratio were achieved in the year 2002. In this year, the current ratio was 860.10%, the quick ratio was 720.36%, and the cash ratio was 508.19%.
2. From the year 1998 until 2002, The Debt Ratio of PT Sari Husada Tbk was low, less than 20%. This indicates that the company prefers to use of equity financing rather than debt of financing. By this strategy, PT Sari Husada Tbk is low of risk.
3. From the profitability analysis, even in 1998 Indonesian economy was facing crisis, the company was still profitable from the year 1998 to 2000. The Gross Profit Margin Ratio, Operating Profit Margin, Net Profit Margin, ROI, and ROE from the year 1999 to 2002 were relative stable, except in the year 1998 that was very low. After this year, PT Sari Husada

Tbk was more profitable. It can be concluded that the company's overall effectiveness of operations from the year 1999 to 2002 was good.

4. The Activity Ratio of PT. Sari Husada Tbk. from the year 1998 to 2002 was excellent. High ratio of all activity ratios indicates that the company could maintain the assets very good. The company had a good efficiency in using the short–term and long–term capital investment to generate the level of sales.

After all had analyzed, it can be concluded that generally, the company's financial ratios indicate a good result. The financial performance of PT Sari Husada Tbk during 1998 until 2002 is good. The strategy of using equity financing done by the management of PT Sari Husada Tbk is considered as a right decision. By that strategy, PT Sari Husada Tbk could face the crisis successfully.

5.2. Recommendation

Based on the analysis and conclusion made above, the writer tries to give some recommendations that might be useful for the company's management to make an appropriate decision in the next period.

The recommendations are described as follows:

1. With high ratio, that was too higher than the minimum standard, and the ratios tend to increase from year to year. It is better for the company to maintain the ratio become less. The excess of money could be used for other activities like expansion, or build new facilities to produce raw material that until now it is still imported.

2. Using equity financing strategy rather than debt-financing strategy during the situation like 5 year later is a right decision. From the risk point of view, using equity financing risk becomes low. But, from the cost of capital point of view, using equity financing gives effect of high cost. So, PT Sari Husada Tbk should maintain those capitals more effectively.
3. Lost in foreign exchange in the year of 2002 was very high, that is why the management should be more careful in the future. This lost made net income decrease significantly. Besides, PT Sari Husada Tbk should be more profitable after the new factory in Kemudo-Klaten became fully operational.
4. With the high level of activity ratio, PT Sari Husada Tbk should keep this performance. Using more creative and innovative promotion, an attractive design of product, nice features, and suitable sizes of product would increase the sales that are related to the long-term activity ratio.

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APPENDICES

Appendix 1

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 2002
(Expressed in Million Rupiah)

Net sales	1,021,851
Cost of goods sold	-583,323
Gross profit	438,528
Operating expenses	
Selling and marketing	-76,957
General and administrative	-48,885
Total operating expenses	-125,842
Operating income	**312,686**
Other income/(expenses)	
Foreign Exchange	-70,942
Discount on foreign currency forward contracts	-
Toll manufacturing income, net	-
Amortization of forward contract premium	-
Interest income	9,485
Gain on sales of fixed assets	1,103
Interest expense	
Others, net	436
Other income/(expense), net	-59,918
Income before income tax	252,768
Income tax expense	-75,421
Income before minority interest	177,347
Minority interest in net income of Subsidiary	-47
Net Income	**177,300**

Appendix 2

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 2001
(Expressed in Million Rupiah)

Net sales	932,942
Cost of goods sold	-577,314
Gross profit	355,628
Operating expenses	
Selling and marketing	-55,841
General and administrative	-32,235
Total operating expenses	-88,076
Operating income	**267,552**
Other income/(expenses)	
Foreign Exchange	35,108
Discount on foreign currency forward contracts	-
Toll manufacturing income, net	-
Amortization of forward contract premium	-
Interest income	10,810
Gain on sales of fixed assets	2,700
Interest expense	-
Others, net	1,005
Other income/(expense), net	49,623
Income before income tax	317,175
Income tax expense	-92,361
Income before minority interest	224,814
Minority interest in net income of Subsidiary	-48
Net Income	**224,766**

Appendix 3

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 2000
(Expressed in Million Rupiah)

Net sales	606,242
Cost of goods sold	-373,363
Gross profit	232,879
Operating expenses	
Selling and marketing	-35,086
General and administrative	-28,541
Total operating expenses	-63,627
Operating income	**169,252**
Other income/(expenses)	
Foreign Exchange	
Discount on foreign currency forward contracts	2,133
Toll manufacturing income, net	-
Amortization of forward contract premium	-
Interest income	10,635
Gain on sales of fixed assets	613
Interest expense	-
Others, net	5,544
Other income/(expense), net	18,925
Income before income tax	188,177
Income tax expense	-56,742
Income before minority interest	131,435
Minority interest in net income of Subsidiary	-24
Net Income	**131,411**

Appendix 4

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 1999
(Expressed in Million Rupiah)

Net sales	428,771
Cost of goods sold	-253,004
Gross profit	175,767
Operating expenses	
Selling and marketing	-29,249
General and administrative	-24,693
Total operating expenses	-53,942
Operating income	**121,824**
Other income/(expenses)	
Foreign Exchange	
Discount on foreign currency forward contracts	-
Toll manufacturing income, net	7,294
Amortization of forward contract premium	-16,72
Interest income	6,186
Gain on sales of fixed assets	314
Interest expense	-820
Others, net	6,11
Other income/(expense), net	2,366
Income before income tax	124,19
Income tax expense	-37,66
Income before minority interest	86,53
Minority interest in net income of Subsidiary	-27
Net Income	**86,503**

Appendix 5

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 1998
(Expressed in Million Rupiah)

Net sales	240,977
Cost of goods sold	-160,517
Gross profit	80,459
Operating expenses	
Selling and marketing	-23,139
General and administrative	-11,068
Total operating expenses	-34,207
Operating income	**46,252**
Other income/(expenses)	
Foreign Exchange	
Discount on foreign currency forward contracts	-
Toll manufacturing income, net	2,394
Amortization of forward contract premium	-4,35
Interest income	4,285
Gain on sales of fixed assets	545
Interest expense	-27,032
Others, net	-6,456
Other income/(expense), net	-30,612
Income before income tax	15,64
Income tax expense	-5,332
Income before minority interest	10,308
Minority interest in net income of Subsidiary	-5
Net Income	**10,302**

Appendix 6

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED DECEMBER 2002, 2001, 2000, 1999, And 1998
(Expressed in Million Rupiah)

	2002	2001	2000	1999	1998
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	385,580	295,860	193,679	110,915	38,904
Time deposit	-	-	-	70	120
Trade receivables:					
-Third parties	6,151	4,734	6,292	7,578	6,135
-Related parties	138,346	113,757	73,239	30,877	44,825
Other receivables					
-Third parties	1,506	2,955	917	2,907	1,845
-Related parties	-	-	-	15,007	1,560
Receivables from forward currency contracts	-	13,281	-	-	-
Inventories	106,022	102,492	111,931	79,076	41,01
Prepaid taxes	-	-	2,133	6,758	8,169
Advances	3,727	3,348	17,238	1,846	13,086
Prepaid expenses	2,449	1,515	4,258	1,924	697
Total current assets	652,580	537,942	409,687	256,959	156,351
NON-CURRENT ASSETS					
Amounts due from related parties	2,457	2,742	2,664	-	-
Investments in shares	155	155	155	155	155
Fixed assets (net of accumulated depreciation of Rp 128,689 in 2002; Rp 102,348 in 2001; Rp 84,832 in 2000;Rp 68,166 in 1999; and Rp 52,625 in 1998	277,826	252,434	125,853	122,043	109,813
Excess cost over net assets of PT Sugizindo	-	-	3,993	7,987	11,981
OTHER ASSETS					
Deferred tax assets	241	205	210	-	-
Deferred charges	-	-	-	1,1	1,413
Other assets	2,261	3,054	305	1,839	1,087
Total other assets	2,502	3,259	515	2,939	2,500
Total non-current assets	282,940	258,590	133,180	133,124	124,449
TOTAL ASSETS	**935,520**	**796,532**	**542,867**	**390,083**	**280,800**

Appendix 7

PT SARI HUSADA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEAR ENDED DECEMBER 2002, 2001, 2000, 1999, AND 1998
(Expressed in Million Rupiah)

	2002	2001	2000	1999	1998
CURRENT LIABILITIES					
Bank loans	-	-	-	-	2
Trade payable					
-Third parties	52,370	33,097	22,235	9,376	11,204
-Related parties	1,298	8,764	-	5,436	945
Other payable					
-Third parties	497	1,610	718	629	1,056
-Related parties	-	-	-	-	3,609
Dividend payable	150	108	114	13	13
Taxes payable	2,487	38,765	36,342	27,356	624
Accrued expenses	15,257	22,049	14,010	9,175	4,111
Deferred gain on hedge transactions	-	-	-	-	4,394
Payable from forward foreign currency contract	3,814	-	-	-	-
Current maturities on long-term					
Lease payable	-	-	-	-	64
Total current liabilities	75,873	104,393	73,419	51,985	28,560
LONG TERM LIABILITIES					
Deferred tax liabilities, net	7,967	4,854	5,986	6,802	7,474
Amount due to related parties	10,349	3,710	5,662	-	-
Provision for employees' service and compensation	3,643	3,572	-	-	-
Total long term liabilities	21,959	12,136	11,648	6,802	7,474
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY	149	104	56	43	15
SHAREHOLDERS' EQUITY					
Share capital	94,177	91,762	91,762	88,025	88,025
Additional paid in capital	172,864	105,013	105,013	79,67	79,67
Fixed assets revaluation reserve	1,145	1,145	1,145	1,145	1,145
Appropriated retained earnings					
-General reserve	98,208	98,208	98,208	46,915	46,915
-Expansion reserve	166,413	166,413	35,002	35,002	16,7
Unappropriated retained earnings	304,732	217,358	126,614	80,496	12,295
Retained earnings	-	-	-	-	-
Total shareholders' equity	837,539	679,899	457,744	331,253	244,75
TOTAL LIABILITIES AND EQUITY	**935,52**	**796,532**	**542,867**	**390,083**	**280,800**