2013

CORPORATE GOVERNANCE
& FINANCIAL REPORT

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Corporate Governance Statement

Throughout the years, Nestlé (Malaysia) Berhad ("Company") and its Board of Directors ("Board") have been resolute in ensuring that the Company and its subsidiaries' ("Group") business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct.

Being a subsidiary of Nestlé S.A. of Vevey, Switzerland, the Group has adopted the "Corporate Governance Principles" of its holding company as the basis of its best practices in corporate governance. The principles of corporate governance as practiced by the Group cover mainly four (4) areas, as follows:

- The rights and responsibilities of shareholders;
- The equitable treatment of shareholders;
- The duties and responsibilities of Directors; and
- Disclosure and transparency.

This corporate governance statement ("Statement") sets out the adoption and practices of the above principles of corporate governance as well as the application of the eight (8) Principles and 26 Recommendations of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), relevant chapters of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa") on corporate governance and the internal requirements as codified in the Nestlé Code of Business Conduct.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGEMENT

TERMS OF REFERENCE OF THE BOARD OF DIRECTORS

Principal Responsibilities of the Board of Directors

The Board of Directors directs the Group's risk assessment, strategic planning, succession planning and financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met.

The Board of Directors provides the leadership necessary to enable the Group's business objectives to be met within the framework of risk management and internal controls as described in this Statement.

Broadly, the Board of Directors assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- reviewing and adopting a strategic plan for the Group, including addressing the Group's business strategies on promoting sustainability;
- overseeing the conduct of the Group's business, and evaluating whether or not its businesses are being properly managed;
- identifying principal business risks faced by the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks;
- ensuring that all candidates appointed to the Board of Directors are of sufficient calibre, including having in place a process to provide for the orderly succession of the members of the Board of Directors and Board diversity (including gender diversity);
- establishing Board Committees and responsible for all decision making for the committees;
- overseeing the development and implementation of an investor relations programme and stakeholder communications policy; and
- reviewing the adequacy and integrity of the Group's internal control and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

To assist in the discharge of its stewardship role, the Board of Directors has established Board Committees, namely the Audit Committee, the Nomination Committee and the Compensation Committee. The Board Committees have the authority to examine specific issues within their respective terms of reference as approved by the Board of Directors and report to the Board of Directors with their recommendations. All deliberations and decisions taken by the Board Committees are documented and approved by the respective Chairman of the Committees prior to submission as agenda items for deliberation at the meeting of the Board of Directors. The ultimate responsibility for decision making, however, lies with the Board of Directors. The Board of Directors has a Board Charter in the form of Terms of Reference herein and conducts periodic review of its Terms of Reference. The Board of Directors will make available the salient features of the Terms of Reference of the Board and its Committees on the Company website: www.nestle.com.my. The Board Committees have their roles and functions, written terms of reference, operating procedures and authorities clearly defined. The Board of Directors reviews the Board Committees' authority and terms of reference from time to time to ensure their relevance.

A. Clear Roles and Responsibilities

The Board of Directors has a collective responsibility for the management of the Group. The Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board of Directors and providing objective challenges to Management.

The Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with the Group and this is to ensure that they are capable of exercising judgment objectively whilst acting in the best interest of the Group, its stakeholders and shareholders, including minority shareholders. To enhance accountability, the Board of Directors has specific functions reserved for the Board of Directors and those delegated to Management.

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There is a schedule of key matters reserved for the Board of Directors for its deliberation and decision to ensure the direction and control of the Group's business are in its hands. Key matters reserved for the Board of Directors for decision comprise the following:

- acquisition and disposal or closure of businesses;
- declaration of dividends and approval of financial statements, including accounting policies of the Group;
- establishment of new businesses;
- adoption of annual strategic plan;
- capital investment and disposal of tangible assets from existing business to third party;
- increase or reduction of subsidiary's authorised or issued capital;
- financing on the Group's activities;
- any corporate restructuring not covered by the above-mentioned paragraphs; and
- the change of name of any company in the Group and establishment of any new company.

B. Functions of the Board of Directors

- reviewing the Company's performance on quarterly basis;
- receiving updates on various business operations from the Management;
- bringing independent judgment and scrutiny to decisions taken by the Board of Directors and providing objective challenges to Management;
- declaration of dividends and approval of financial statement, including accounting policies of the Group;
- formalising and adopting a set of Code of Ethics through the Code of Conduct, ensuring its compliance, establishing an appropriate set of corporate disclosure policies and procedures and ensuring a whistleblowing mechanism is in place.

C. Role of Chairman / Managing Director and Authority Limits

There is a clear division of responsibilities between the Chairman and the Managing Director as well as specific parameters in which the management decisions are made in order to ensure independence. The detailed explanation in this regard is provided in page 11.

Code of Ethics for Directors and Code of Conduct

In discharging its responsibilities, the Board of Directors is guided by the code of ethics and principles contained in the Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles in addition to the MCCG 2012. The Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles outline the conduct and responsibilities of the Board of Directors and all employees. The Directors of the Company have a duty to declare immediately to the Board of Directors should they be interested in any transaction to be entered into directly or indirectly by the Group.

The Nestlé Code of Business Conduct governs the conduct of all employees in the Group including the Board of Directors. Examples of provisions in the Nestlé Code of Business Conduct are compliance with laws, rules and regulations, avoiding situations where there are conflicts of interest, timely declaration of interest in competing businesses, prohibition on the use of inside information, corporate opportunities, insider trading, whistleblowing and no corrupt activities.

The Nestlé Code of Business Conduct is premised on three (3) basic principles, which are, the avoidance of any conduct that could damage or risk the Group or its reputation, legal compliance and honesty and to place the Group's interests ahead of personal or other interests and guiding the way the Group's employees behave.

In addition to the Nestlé Code of Business Conduct, all employees are also guided by the Nestlé Corporate Business Principles that also cover key issues that underpin corporate social responsibilities known as Creating Shared Value, catered to fit the unique characteristics of the Group. The Nestlé Corporate Business Principles focus on work place practices and ethics, employee relations and employee human rights. The ten (10) principles, contained in the Nestle Corporate Business Principles, set out a common approach to the development of policies and procedures taking into account labour laws and practice and political, economic and cultural aspects. These principles can be summarised as follows:

- We delight consumers (Principles 1, 2, 3);
- We care about people (Principles 4, 5, 6);
- We develop responsible partnerships (Principles 7, 8); and
- We promote sustainability (Principles 9, 10).

The Group is committed to high standards of conduct and believes this to be a key success factor to the performance of the Group. The Nestlé Management and Leadership Principles issued by Nestlé S.A. have also been applied within the Group and communicated to every employee within the organisation.

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The Nestlé Management and Leadership Principles describe the culture, values and principles the Group expect from its employees to uphold as well as the attributes needed to be successful in management and leadership positions. These principles are aligned to the Nestlé Corporate Business Principles as well as the Nestlé Code of Business Conduct, in which "Leadership and Personal Responsibility" and non-negotiable minimum standards of employee behaviour are clearly depicted as key operational principles.

The Group emphasises on the need to develop Nestlé Managers who add value and are able to lead and inspire individuals rather than through the exercise of formal authority. This requires a high level of personal commitment from each employee and a common mindset geared towards results and performance. Achieving on-going success requires each Nestlé leader to understand and capitalise its context based on the following principles:

- Lead to win;
- Manage for results;
- Grow talent and teams; and
- Compete and connect externally.

The Group believes that the Nestlé Management and Leadership Principles are useful in helping Nestlé employees to be effective, engaging and inspiring by ensuring that they "walk the talk" and lead by example in their daily work.

The Nestlé Code of Business Conduct, the Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles are made available to employees and Directors on the Company's intranet whilst the Nestlé Corporate Business Principles are also made available on the Company's corporate website at www.nestle.com.my. Copies of the documents may also be obtained from the Company Secretary upon request.

Whistleblowing Policy

One of the key provisions in the Nestlé Code is reporting on illegal or unacceptable behaviour/non-compliant conduct. The Board of Directors acknowledges that misconduct such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group. An early warning system such as a whistleblowing policy and procedure can help the Group to detect wrongdoings and alert the Group to take corrective actions before a problem becomes a crisis. To address this concern, the Group has formalized a Compliance Framework to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business. This includes the establishment of a Non-Compliance Hotline facility (whistleblowing hotline) whereby any employee, supplier or third party may call the hotline, write an e-mail or post a message on the website on any non-compliance situation in the Group. The identity of the whistleblower is also safeguarded at all times. In order to respect anonymity and protect the whistleblower, the Non-Compliance Hotline and website are managed by a third party. An employee who believes in good faith that it is his or her duty to report suspected misconduct and who discloses information is protected by the Group from coercion, retaliation or reprisal in connection with his or her cooperation.

A whistleblowing system strengthens and supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. It is the belief of the Group that having a whistleblowing policy in place increases investors' confidence in the Group and is in line with the Group's sound corporate governance practices. This is further enhanced with the Whistleblower Protection Act 2010, where a whistleblower must be given proper protection from an employer while a complaint is being investigated.

The Group's employees are strongly encouraged to speak up and raise any suspicions of wrong-doing, malpractice or impropriety in the management of the Group's business by bringing up these issues with their line managers or through the internal whistleblowing procedures which were implemented in 2011. The internal whistleblowing procedures are an integral part of a comprehensive framework which outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance, and allows the whistleblower the opportunity to raise a concern outside his or her management line.

A Business Ethics and Fraud Committee is in place to review all complaints/allegations lodged via the Non-Compliance Hotline or any other venues (e.g. phone, letter, e-mail). This committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. Reports and updates are provided to the Board of Directors through the Audit Committee.

Compliance Programme

In 2011, the Group established a two-tier Compliance Framework to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business. The first-tier, which is the Committee of Compliance Champions, is made up of representatives of the various business and function units which are mostly represented by the respective Business Controllers. The Compliance Champions are responsible for coordinating the compliance documents review and gaps assessment in their respective units. In order to facilitate the assessment, a database that incorporates a list of all compliance documents has been established, known as the Compliance Matrix.

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The Compliance Champion Meetings are chaired by the Legal & Compliance Counsel as the coordinator of the Compliance Framework, and the agenda of the meetings typically involve discussions on the progress of the assessments, gaps identified by the Compliance Champions and the action plan status. For the financial year ended 31 December 2013, there were four (4) quarterly meetings convened by the Committee of Compliance Champions.

All matters discussed at the meetings of the Committee of Compliance Champions are summarised and escalated to the Compliance Steering Committee which is the second tier in the Compliance Framework. The Compliance Steering Committee comprises of the Managing Director, Executive Director, Finance & Control, Executive Director, Technical & Production, Executive Director, Group Human Resources, Head of Legal & Secretarial and the Country Business Manager of the Nestlé Professional business unit. The Compliance Steering Committee is responsible in setting the direction of the Compliance Framework and to support the successful execution of the Framework, to report and confirm the status of the identified gaps and the progress of the action plans.

The Compliance Framework is a continuous monitoring programme in which the relevant policies, guidelines, instructions, laws and regulations are regularly updated to ensure the Compliance Matrix contains up-to-date information on the Group's compliance documents and it is made accessible to the relevant stakeholders as and when required.

Personal Data Protection

In light of the Personal Data Protection Act 2010 ("PDPA") which has come into effect on 15 November 2013, the Group has embarked on various compliance and awareness activities to ensure that the Group continues to be in compliance with all applicable laws and regulations in the country in respect of the PDPA and operates in accordance with the Nestlé Corporate Business Principles.

Whilst the Group has consistently benchmarked its relevant activities related to privacy against the Nestlé Global Privacy Policy, the Group also conducts review of such activities in its business operations and has taken the necessary measures to ensure that the Group is in compliance with the specific legal requirements under the PDPA.

For the financial year ended 31 December 2013, apart from on-going consultations with Business Units and Functions on privacy law issues in day-to-day operations, the Group had also conducted two (2) trainings on PDPA and the Nestlé Global Privacy Policy across the business/function units within the Group. Awareness on PDPA and the Nestlé Group Privacy Policy are also included in the induction trainings to new employees which are conducted on regular basis. The trainings are aimed to impart the relevant knowledge and to raise awareness amongst employees on the importance to comply with the PDPA and Nestlé Global Privacy Policy and not to engage in any conduct that transgresses any privacy laws and policies.

Competition Law

Ever since the coming into effect of the Competition Act 2010 in 2012, the Company continues to enhance and increase the knowledge and awareness of its employees by having continuous trainings for the employees. These include the provision of an induction session as well as specific trainings for the new employees which are conducted on a regular basis. The Company also conducted an intensive training for the relevant employees in the Group and in November 2013, the Group rolled out the Competition Law e-Learning programme to all relevant management level employees in order to assess and gauge the level of understanding amongst employees.

Consumers

Guided by the Nestlé Quality Policy and the Nestlé Consumer Communication Principles, the Group's products and brands are developed, manufactured and marketed in a responsible manner. In order to achieve the Group's vision of uncompromising quality, the Group maintains one (1) toll free consumer hotline for all its products with the objective of effectively attending and responding to consumer complaints and feedback in a timely manner.

Suppliers and Service Providers

The Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and the Nestlé Supplier Code (collectively known as "Standards") are also binding on the Group's suppliers and service providers to ensure high standards of business ethics amongst all suppliers and service providers of the Group, including the suppliers or service providers of the Group's related companies. These Standards are incorporated into the contract with the relevant supplier or service provider. It is made clear in all agreements with suppliers and service providers that breaches relating to any provisions in the Standards of which the relevant supplier or service provider has been made aware, may lead to immediate termination of the contract with the affected supplier or service provider.

Sustainability of Business

The Board of Directors is cognisant of the importance of business sustainability and, in conducting the Group's business, the impact on the environment, social and governance is taken into consideration. The Group also embraces sustainability in its operations and throughout its value chain and in partnership with its stakeholders, including suppliers, customers and other organisations.

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Apart from the Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles, the Group has in place other internal policies and guidelines to address corporate sustainability. These refer to the internal policies, standards and guidelines such as the Nestlé Supplier Code and the Company Standing Instructions on Procurement of Services which clearly define broad objectives on engaging good quality service providers whilst observing competitive and transparent bidding process to deliver competitive pricing. The following awards are testimony of the Group's commitment to manage its business responsibly:

Awards and Achievements	The Prime Minister's Hibiscus Awards 2013
	The Minority Shareholder Watchdog Group (MSWG)'s Malaysia - Asean Corporate Governance Index 2013
	ACCA Malaysia Sustainability Reporting Awards 2013 (ACCA MaSRA) National Annual Corporate Report Awards (NACRA)
	The Edge Billion Ringgit Club 2013
	Malaysia's 100 Leading Graduate Employers Award 2012/2013
	Life at Work Awards 2013
	The Putra Brand Awards 2013
	The Effie Awards 2013
	The Festival of Media Asia Pacific Awards
	The Malaysian Media Awards 2013

The Group's corporate sustainability directions and activities are disclosed in this Annual Report, attached as a separate report titled Creating Shared Value Report 2013.

Access to Information and Advice
From time to time, whenever the Board of Directors requires relevant information updates from any members of the Management Team, the relevant member of the Management Team is invited to attend meetings of the Board of Directors and to provide the Board of Directors with any such relevant information or updates.

In 2013, the following information was presented by the Management Team to the Board of Directors:

- Company Performance by Sales Director;
- Overview of the Group Human Resources Department;
- East Malaysia operations;
- Reigniting the Growth business update;
- Business risk management;
- WHO Code Compliance Update and FTSE4Good;
- Update on WCP 80 (Fonterra Milk);
- Goods and Services Tax ("GST") impact on the Group;
- Removal of sugar subsidy and its impact on the Group;
- Bonanza Hari Keluarga contest; and
- Food Business Overview.

The Board of Directors and the Board Committees receive timely and up-to-date information and the Company Secretary, under the direction of the Chairman, ensures a balanced flow of information is disseminated for decisions to be made on an informed basis and for the effective discharge of the Board of Directors' responsibilities. Prior to the Board of Directors and Board Committee meetings, a formal and structured agenda, together with a set of Board of Directors and Board Committee papers, are forwarded to all Directors at least five (5) days prior to the Board of Directors and Board Committee meetings, to enable the Board of Directors to make decisions and for Directors to be prepared to deal with matters arising from such meetings. The Board of Directors firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by Management.

Presentations to the Board of Directors and the Board Committees are prepared and delivered in a manner that ensures a clear and adequate understanding of the subject matter. In addition, reading materials on the subject matter are prepared and circulated at least five (5) days prior to each meeting to assist Directors in having an understanding of the subject matter.

The Management Team and external advisers are invited to attend Board of Directors and Board Committee meetings, as the case may be, to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

All the Directors have unrestricted access to information within the Group. There is also a formal procedure approved by the Board of Directors for all Directors, whether acting as a full Board of Directors or Board Committee, or in their individual capacity, to obtain independent professional advice, when necessary, at the Company's expense. Prior to engaging an independent adviser, approval must be obtained from the Chairman and, where applicable, the Chairman may circulate the need for external advice to the Board of Directors.

All Directors have unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Company Secretary, who is qualified, experienced and competent, advises the Board of Directors on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and their impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities.

The Company Secretary organises and attends all Board of Directors and Board Committee meetings and ensures meetings are properly convened; accurate and proper records of the proceedings and resolutions passed are maintained accordingly at the registered office of the Company; and produced for inspection, if required. The removal of the Company Secretary is a matter for the Board of Directors, as a whole, to decide.

PRINCIPLE 2 – STRENGTHEN THE COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors consists of eight (8) members, six (6) of whom are Non-Executive Directors (including the Chairman) whilst the remaining two (2) are Executive Directors. All of the Non-Executive Directors are Independent Directors. This composition fulfills the requirements mandated by the Listing Requirements of Bursa, which stipulate that at least two (2) Directors or one-third of the Board of Directors, whichever is higher, must be Independent. The profile of each Director is set out in pages 32 to 35 of the Corporate Report. At the date of this Statement, the size and composition of the Board of Directors is well balanced in its current constituted state, to address any business challenges and to drive the business of the Group to greater heights. The Board of Directors comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise to meet the Group's needs.

Nomination Committee

A Nomination Committee was established on 26 August 2010 and comprises exclusively of Independent, Non-Executive Directors. At the date of this Statement, the members are as follows:

- Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail (Chairman);
- Tan Sri Datuk Yong Poh Kon; and
- Dato' Frits van Dijk.

TERMS OF REFERENCE OF THE NOMINATION COMMITTEE

OBJECTIVES

The Nomination Committee was formed by the Board of Directors with specific terms of reference.

The principal responsibilities of the Nomination Committee:

- establish a suitable process to identify, recommend and nominate suitably qualified candidates in terms of appropriate balance of skills, expertise, attributes and core competencies taking into consideration the character, experience, integrity, competence and time commitment prior to the appointment, re-election and re-appointment of Directors;
- review annually the independence of Directors including where appropriate, criteria on assessing the independence of candidates' appointment as Independent, Non-Executive Directors;
- ensure new Directors go through a proper induction programme and to continuously, evaluate the training needs for individual Directors, encouraging continuous education as necessary;
- review succession plans and board diversity (including gender diversity);
- to develop criteria for the assessment of the Board of Directors, Board Committee and individual Directors such as the Board Effectiveness Evaluation in which the Directors will assess each other and the Board of Directors as a whole to determine its effectiveness as well as develop a matrix skill set to undertake the assessment;
- to regularly evaluate and assess the contribution and performance including core competencies of the Board of Directors, Board Committees and individual Directors; and
- assess the retirement of Directors by rotation and eligibility for re-election or re-appointment.

The Committee shall be chaired by the Chairman of the Board of Directors, and the Chairman is responsible for the conduct of the meeting. Regular meetings are fixed in the calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum for the Nomination Committee meeting shall be at least three (3) members present at the meeting.

The Company Secretary of the Company acts as the Secretary of the Nomination Committee who shall be in attendance and shall record the proceedings of the meeting. The Nomination Committee may invite any officer of the Company to attend its meetings, has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required, in carrying out its functions.

Recommendations by the Nomination Committee are reported at the meeting of the Board of Directors by the Chairman of the Nomination Committee for the Board of Directors' consideration and approval.

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The Process of the Committee:
In appointing the appropriate individual to the Board of Directors, the Committee shall first consider and recommends to the Board of Directors the suitable candidate for directorship proposed by the Managing Director taking into consideration the candidate's skills, knowledge, expertise and experience, time, commitment, character, professionalism and integrity. For the position of Independent, Non-Executive Directors, the Committee would also evaluate the candidate's ability to discharge such responsibilities as expected of an Independent, Non-Executive Director.

The Committee shall evaluate the balance of skills, knowledge, experience and diversity of the Board of Directors. The Committee shall prepare a description of the role and capabilities required for a particular appointment before a recommendation is made to the Board of Directors.

In identifying the suitable candidates, the Committee may:

- review competencies, independence and time commitment of candidates;
- undertake skills gap assessment;
- consider candidates from a wide range of backgrounds;
- consider candidates on merit and against objective criteria with due regard to the diversity including gender and time commitment; and
- request to consider the disclosure of any business interests that may result in conflict of interests.

Currently, the Company has two (2) female members on the Board of Directors and is actively evaluating and assessing the possibility of appointing more females to the Board of Directors.

Upon appointment to the Board of Directors, all new Directors will undergo a comprehensive induction programme and he or she will receive a briefing regarding the Company, its operation as well as what is expected of them in terms of time commitment, Board Committee involvements, if any, and other involvements outside Board of Directors meetings.

In addition to the appointment, the Committee also makes the recommendation to the Board of Directors in relation to re-election, re-appointment and resignation of Directors as well as periodically reviews and report to the Board of Directors on succession planning for the Directors.

Directors seeking re-election and re-appointment would abstain from all deliberations regarding his/her re-election and re-appointment to the Board of Directors and/or Board Committees.

Statement on Activities
In 2013, the Nomination Committee met once and the attendance of members is as follows:

No.	Nomination Committee Members	Meeting Attendance
1.	Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	1/1
2.	Tan Sri Datuk Yong Poh Kon	1/1
3.	Dato' Frits van Dijk	1/1

In 2013, the Committee carried out an assessment on the effectiveness of the Board as a whole, the Committees of the Board and contribution of each individual Director. The assessment considered the contribution and performance of Directors on their competency, time commitment, integrity and experience in meeting the needs of the Group and suggestions to enhance board effectiveness. The evaluation process involved a peer and self-review assessment, where Directors assessed their own and also their fellow Directors' performance and was led by the Chairman of the Nomination Committee and supported by the Company Secretary. The assessment and comments by all Directors were summarised and discussed at the Nomination Committee meeting and reported at a meeting of the Board by the Chairman of the Nomination Committee at the Board of Directors' meeting on 24 February 2014. All assessments and evaluations carried out by the Nomination Committee in the discharge of its functions were properly documented.

From the results of the assessment, which include the mix of skills and experience possessed by the Directors, the Board considers the recommendations on the re-election and re-appointment of Directors. The Company re-election process accords with Articles 90.1 and 90.2 of the Company's Articles of Association ("Articles"), which state that one- third of the Directors for the time being appointed shall retire from office and be eligible for re-election, provided that all Directors shall retire from office at least once in each three (3) years but shall be eligible for re-election, to allow the shareholders the opportunity to renew their mandate at the Annual General Meeting. The Directors to retire in every year shall be those who have been longest in office since their last election.

Article 88 of the Company's Articles states that at any point of time, the total number of Directors shall not be less than two (2) and not more than eight (8) and Nestlé S.A. shall be entitled to appoint up to four (4) Directors. The Board, through the assessment and recommendations of the Nomination Committee, is confident and firmly believes that individuals chosen and appointed to the Board are individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively. Article 97 of the Articles provides that a Director appointed by the Board from time to time shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election at the Annual General Meeting. Pursuant to

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Section 129(6) of the Companies Act 1965, members of the Board who are over 70 years of age may be re-appointed as a Director to serve until the end of the next Annual General Meeting. Currently, all of the Directors are below 70 years of age.

The Directors standing for re-election/re-appointment at the forthcoming Annual General Meeting of the Company are as follows:

Name	Designation
Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	Independent, Non-Executive Director
Dato' Frits van Dijk	Independent, Non-Executive Director
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	Independent, Non-Executive Director

Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail and Dato' Frits van Dijk, who are both Independent, Non-Executive Directors, are due to retire pursuant to Article 90.1 at the Annual General Meeting. Toh Puan Dato' Seri Hajjah Dr. Aishah Ong, an Independent, Non-Executive Director, who was appointed to the Board of Directors on 28 November 2013, is due to retire pursuant to Article 97 at the forthcoming Annual General Meeting. All of the aforementioned Directors will be recommended for re-election/re-appointment by the Board of Directors pursuant to the respective Articles. Information of each Director standing for re-election is set out on pages 32, 33 and 34 of the Corporate Report.

Compensation Committee

The Compensation Committee, established on 26 August 2010, is responsible to make recommendations to the Board of Directors on the compensation framework for the Board of Directors and the Group's employees. The Compensation Committee consists of four (4) members, a majority of whom are Independent, Non-Executive Directors. At the date of this Statement, the members are as follows:

- Dato' Mohd. Rafik Bin Shah Mohamad (Chairman)
- Tan Sri Datuk (Dr.) Rafiah Binti Salim
- Dato' Frits van Dijk
- Alois Hofbauer
- Marc Seiler (Alternate Member to Alois Hofbauer)

TERMS OF REFERENCE OF THE COMPENSATION COMMITTEE

OBJECTIVES

The Committee was established for the main purpose to ensure that the remuneration package and benefits of the Board of Directors and the employees of the Group are benchmarked with industry standards in light of the Group's performance in the industry.

The Committee should be chaired by an Independent Director appointed by the Board of Directors from among its members of the Board of Directors. The Chairman of the Committee is responsible for the conduct of the meeting. Regular meetings are fixed in the calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum for the Compensation Committee meeting shall be at least three (3) members present at the meeting.

The Company Secretary of the Company acts as the Secretary of the Compensation Committee who shall be in attendance and shall record the proceedings of the meeting. The Compensation Committee may invite any officer of the Company to attend its meetings, has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required, in carrying out its functions.

Recommendations by the Compensation Committee are reported at the meeting of the Board of Directors by the Chairman of the Compensation Committee for the Board of Directors' consideration and approval.

The Process of the Committee:

The Committee reviews once every three (3) years the remuneration of the Non-Executive Directors and makes its recommendation to the Board of Directors. On an annual basis, the Committee reviews and recommends to the Board of Directors the remuneration package for the Group's employees.

In reviewing the remuneration package for the Non-Executive Directors, the Committee shall consider the need to remunerate appropriately given the level of responsibility of its Directors. The Committee also reviews the appropriate incentives to nurture and retain quality Directors, if required, whilst being sensitive to the interests of other stakeholders, including shareholders and employees.

For the Non-Executive Directors' compensation, the Committee takes into account the following criteria in making their recommendation:

- the Code of Corporate Governance;
- the comparable companies;
- roles and responsibilities of the Directors;
- compliance to applicable regulations; and
- time commitment.

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Such review will take into consideration any additional responsibilities undertaken such as a Director acting as Chairman of the Board of Directors, Chairman of the Board Committees and/or members of the Board Committees. The Compensation Committee is responsible in ensuring the fair remuneration and that the manner it is implemented is consistent with the overall business strategies of the Group.

Non-Executive Directors are paid fixed annual directors' fees as members of the Board of Directors and members of the Board Committees. The members of the Board of Directors and the Board Committees are also paid meeting attendance fees for their attendance at the respective meetings.

For Executive Directors, the Committee is guided by the compensation framework developed by Nestlé S.A, which is the major shareholder of the Company. The Compensation Committee takes cognisant that the individual remuneration packages of Executive Directors of the Group are subject to the global remuneration practices of the worldwide Nestlé group of companies. This was established by the Human Resource Function of Nestlé S.A. in Vevey, Switzerland. For the Executive Directors of the Group, corporate and individual performances are rewarded through integrated pay benefits and bonus structure which reflects the competitive nature of the Group's operations in order to contribute to the winning organisation strategy of the Group. Moving forward, the Compensation Committee has been entrusted to review and recommend to the Board of Directors, the compensation structure of the Executive Directors. Executive Directors who are full-time employees of the Group receive no additional compensation for services as a member of the Board of Directors.

Statement on Activities

In 2013, the Compensation Committee met twice. The attendance of members is as follows:

No.	Director	Meeting Attendance
1.	Dato' Mohd. Rafik Bin Shah Mohamad	2/2
2.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	2/2
3.	Dato' Frits van Dijk	2/2

In 2013, the Compensation Committee carried out a Board of Directors Remuneration Review exercise to review the remuneration structure for the Non-Executive Directors in line with the market practice and benchmark of the industry. The review was also carried out as a result of the increased responsibilities of the Directors following the new recommendations in the MCCG 2012 and also to ensure that they are remunerated competitively based on their roles and responsibilities. The exercise was facilitated by an external third party to ensure independence and objectivity.

The Company's Articles of Association provide that any payment of Directors' fees should be approved at the Annual General Meeting.

The proposed 2014 Remuneration Direction for the employees of the Group has been approved by the Board of Directors at its meetings on 7 November 2013 and 24 February 2014.

All Compensation Committee meeting minutes, including meeting papers, on matters deliberated by the Compensation Committee in the discharge of its functions are properly documented.

Directors' remuneration paid in the financial year ended 31 December 2013 in aggregate, with categorisation into appropriate components, distinguishing between Executive and Non-Executive Directors, is as follows:

2013	Executive Directors*	Non-Executive Directors*
(MYR, in Gross) **		
Salaries	1,619,705	–
Directors Fees ***	–	280,000
Emoluments ****	1,665,936	39,000
Benefits *****	1,845,434	36,000
Total	5,131,075	355,000

* Exclude Alternate Directors, but include Directors who have resigned/retired.
** Numbers are provided before tax.
*** Fees paid to Non-Executive Directors.
**** Other emoluments include bonuses, incentives, retirement benefits, provision for leave passage, attendance fees and other allowances.
***** Benefits include rental payment, motor vehicle, club membership, personal expenses and other benefits as Directors.

The number of Directors of the Company whose remuneration band falls within the following successive bands of MYR50,000 is as follows:

Ranges of Remuneration (MYR)	Executive Directors* (MYR, in Gross)	Non-Executive Directors*
1 – 50,000	–	–
50,001 – 100,000	–	4
100,001 – 150,000	–	1
150,001 – 950,000	–	–
950,001 – 1,000,000	1	–
1,000,001 – 2,050,000	–	–
2,050,001 – 2,100,000	1	–
2,100,001 – 2,150,000	1	–
Total	**3**	**5**

* Exclude Alternate Directors but include Directors who have resigned/retired/additional member to the Board of Directors[1].

1 Toh Puan Dato' Seri Hajjah Dr. Aishah Ong was appointed to the Board of Directors on 28 November 2013.

PRINCIPLE 3 – REINFORCE INDEPENDENCE OF THE BOARD OF DIRECTORS

There is a clear division of responsibilities between the Chairman and the Managing Director to engender accountability and facilitate the division of responsibility, such that no one individual has unfettered powers over decision making. The Chairman, an Independent Non-Executive Director, is responsible for ensuring the adequacy and effectiveness of the Board of Directors' governance process and acts as a facilitator at Board of Directors meetings to ensure that contributions by Directors are forthcoming on matters being deliberated and that no Board of Directors member dominates discussion. The Managing Director, supported by the Management Team, implements the Group's policies and decisions as adopted by the Board of Directors, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

The Managing Director is responsible for the stewardship of the Group's direction and the day-to-day management of the Group. The Managing Director, together with the Management Team, manages the business of the Group in a manner consistent with the Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles as well as in accordance with any specific plans, instructions and directions of the Board of Directors.

In discharging the above-mentioned responsibilities and duties, the Management Team, headed by the Managing Director, is as follows:

1. Managing Director	2. Executive Director, Finance & Control	3. Executive Director, Technical & Production
4. Executive Director, Sales	5. Executive Director, Supply Chain & NCE	6. Executive Director, Human Resource
7. Executive Director, Dairy	8. Executive Director, Group Corporate Affairs	9. Country Business Manager, Cereal Partners Malaysia

The Board of Directors recognizes the importance of independence and objectivity in its decision making process. The Directors are professionals of high calibre and integrity and possess in-depth knowledge and experience of the business to enable them to discharge their duties effectively. The Independent, Non-Executive Directors bring their objective and independent views, advice and judgment on interests, not only of the Group, but also of shareholders, employees, customers, suppliers and the many communities in which the Group conducts its business. Independent Non-Executive Directors are essential for protecting the interests of shareholders and can make significant contributions to the Group's decision making by bringing in the quality of detached impartiality.

Corporate Governance Statement

Currently, the Company does not have term limits for both Executive Directors and Independent Non-Executive Directors as the Board of Directors believes that continued contribution by Directors provides benefit to the Board of Directors and the Group as a whole. Be that as it may, the Nomination Committee is reviewing and working towards a finalised policy to be recommended to the Board of Directors on the tenure of Independent Non-Executive Directors of the Company, including the tenure of the Chairman of the Company. During the financial year under review, the Board of Directors assessed the independence of its Independent Non-Executive Directors based on criteria set out in Paragraph 1.01 of the Listing Requirements of Bursa.

The MCCG 2012 provides a limit of a cumulative term of nine (9) years on the tenure of an Independent Director. However, an Independent Non-Executive Director may continue to serve the Board of Directors upon reaching the nine (9) year limit subject to the Independent Non-Executive Director's re-designation as a Non-Independent Non-Executive Director. In the event the Board of Directors intends to retain the Director as Independent after the latter has served a cumulative term of nine (9) years, the Board of Directors must justify the decision and seek shareholders' approval at general meeting. In justifying the decision, the Nomination Committee is entrusted to assess the candidate's suitability to continue as an Independent Non-Executive Director based on the criteria on independence.

At the coming Annual General Meeting 2014, the Company will seek its shareholders' mandate to retain Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail as an Independent, Non-Executive Director of the Company. He has served the Company as an Independent, Non-Executive Director since 05 November 2004, for a cumulative period of over nine (9) years. The Nomination Committee has made the necessary assessment and recommended to the Board of Directors that he be retained as an Independent Director of the Company based on his ability to maintain his independence of judgment and to express and maintain unbiased views without any influence. Tan Sri has a good understanding of the Company's business, the challenges faced by the Company and the environment in which the Company operates. The Board values his contribution to the Company and he is also committed in performing his functions and duties as an Independent, Non-Executive Chairman and as the Chairman of the Audit Committee, including but not limited to attendance at Board and Board Committees' meetings. This proposed resolution is in line with the recommendation under the MCCG 2012 and this would allow him to continue to serve as Chairman of the Audit Committee pursuant to the requirements of Paragraph 15.10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Nomination Committee will continue, on an annual basis, to assess the independence of Independent Non-Executive Directors.

PRINCIPLE 4 – FOSTER COMMITMENT OF DIRECTORS

The Board of Directors ordinarily schedules four (4) meetings in a year. Board of Directors and Board Committee meetings are scheduled well in advance, i.e. in the 2nd Quarter of the preceding year financial year, to facilitate the Directors in planning ahead and to ensure that the dates of the Board of Directors and Board Committees meetings are booked in their respective schedules. Additional meetings are convened when urgent and important decisions need to be made between scheduled meetings.

During the financial year under review, four (4) Board of Directors meetings were held and details of Directors' attendances are as follows:

Director	Meeting Attendance
Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	4/4
Dato' Mohd. Rafik Bin Shah Mohamad	4/4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4/4
Tan Sri Datuk Yong Poh Kon	4/4
Dato' Frits van Dijk	3/4
Alois Hofbauer	4/4
Marc Seiler	4/4

(Toh Puan Dato' Seri Hajjah Dr. Aishah Ong did not attend any Board of Directors' meeting as no meeting was held in the financial year ended 31 December 2013, since the date of her appointment).

Time Commitment

In addition to the scheduled meetings, whenever any direction or decisions are required expeditiously or urgently from the Board of Directors, special meetings of the Board of Directors are convened by the Company Secretary, after consultation with the Chairman. Decisions of the Board of Directors are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolutions between scheduled and special meetings. In 2013, five (5) resolutions ranging from administrative to operational in nature were approved by Directors via Circular Resolutions.

The agenda for the meeting of the Board of Directors are set by the Company Secretary in consultation with the Chairman and the Managing Director. The agenda, the relevant reports and Board papers are furnished to Directors in advance to allow the Directors sufficient time to peruse for effective discussion and decision making during meetings. The Board of Directors has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year namely, the Company's Business Plan; Managing Director's Presentation and Quarterly Reports; the Quarterly Unaudited Consolidated Results; Reports and recommendations of the various Board Committees; Announcements to Bursa; Company's Audited Financial Statements; Company's Annual Report (which includes the Corporate Governance Statement, Statement on Risk Management and Internal Control, the Audit Committee Report, Nomination Committee Statement, and Creating Shared Value Statement). Members of the Management Team or external advisors are invited, as and when required, to attend the Board of Directors and/or Board Committee meetings to advise and furnish the members of the Board of Directors and/ or Board Committees with information and clarification relating to the items on the agenda for effective discussion and decision making.

All pertinent issues discussed at Board of Directors meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretary by way of minutes of meetings. It is the Board of Directors policy that Directors devote sufficient time and effort in discharging their responsibilities. This commitment is obtained from the Directors at the time of appointment. Before accepting any new external Board of Directors appointment, the Director shall first ensure sufficient time commitment to the Company before writing to the Company Secretary who will then bring the matter to the attention of the Chairman and the Managing Director. The Chairman and the Managing Director will decide on the acceptance of the request. If there is a potential conflict in the pending appointment, it will be tabled at the Nomination Committee notwithstanding that the Listing Requirements of Bursa allow for a Director to sit on the boards of up to five (5) listed issuers. Such notification is expected to include an indication of time that will be spent on the new external appointment.

Directors' Training

The Board of Directors is mindful of the importance for its members to undergo continuous training and through its Nomination Committee continues to evaluate and determine the training needs of its members to ensure continuing education is made available to Directors in order for them to enhance their business acumen and professionalism in discharging their duties to the Group. In April 2013, all of the Directors have attended the Malaysian Code on Corporate Governance Training conducted by KPMG.

Any Director appointed to the Board of Directors is required to complete the Mandatory Accreditation Programme ("MAP") within four (4) months from the date of appointment. Toh Puan Dato' Seri Hajjah Dr. Aishah Ong, being a new Director, appointed in November 2013, has attended and completed the MAP and has also attended a comprehensive induction programme to familiarise herself with the operations of the Company.

In December 2013, the Company also arranged for factory and market visits for its Directors as part of their training.

Pursuant to paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements of Bursa, the Directors have during the financial year ended 31 December 2013, attended development and training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence. The Company also provided internal briefings to the Directors on key corporate governance developments and salient changes on the Listing Requirements of Bursa laws and regulations. In addition, as part of the Directors' continuous education programme, all Directors are, from time to time, provided with hard copies of reading materials pertaining to the latest developments in areas relating to the Directors' roles and responsibilities.

The external auditors also continuously brief the Board of Directors on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year. The Directors are also encouraged to attend appropriate external trainings on subject matter that aids the Directors in the discharge of their duties as Directors, at the Company's expense.

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING BY COMPANY

The Board of Directors aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly and half yearly announcement of results to shareholders, as well as the Message to Shareholders and review of the Group's operations in the Annual Report.

The Board of Directors relies on the external audit reports to ensure that the financial statements give a true and fair view of the state of affairs of the Group and the Company as at the end of the reporting period and of their results and cash flows for the period then ended. In preparing the financial statements, the Directors ensure that accounting standards approved by the Malaysian Accounting Standards Board ("MASB") in Malaysia and the provisions of the Companies Act, 1965 are complied with and reasonable and prudent judgments and estimates have been made. The Directors' overall responsibilities also include taking such steps as are reasonably open to them to safeguard the assets of the Group and for the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

Corporate Governance Statement

The Board of Directors is satisfied that to the best of its knowledge, it has met its obligation to present a balanced and understandable assessment of the Group's position and prospects in the Directors' Report and the Financial Statements set out in this Annual Report.

To assist in the discharge of its duties on financial reporting, the Board of Directors has established an Audit Committee, comprising wholly Independent Non-Executive Directors, with Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail as the Chairman of the Audit Committee. The composition of the Audit Committee, including its roles and responsibilities, is set out in this Annual Report. One of the key responsibilities of the Audit Committee is to ensure that the financial statements of the Group and Company comply with applicable financial reporting standards in Malaysia. Such financial statements comprise the quarterly financial report announced to Bursa and the annual statutory financial statements.

The Board of Directors' obligation to establish formal and transparent arrangements in considering how it should apply financial reporting and internal controls, and maintaining an appropriate relationship with the Group's external auditors is met through the Audit Committee. The Audit Committee discusses with the external auditors the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the Management provides timely response on any material queries raised by the external auditors, in respect of the accounting records, financial accounts or system of internal controls.

The Audit Committee is empowered by the Board of Directors to review any matters concerning the appointment and re-appointment, resignations or dismissals of external auditors and review and evaluate factors relating to the independence of the external auditors. The Audit Committee works closely with the external auditors in establishing procedures in assessing the suitability and independence of the external auditors, in confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Group in accordance with the independence criteria set out by the International Federation of Accountants and the Malaysian Institute of Accountants. The terms of engagement for services provided by the external auditors are reviewed by the Audit Committee prior to submission to the Board of Directors for approval.

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS OF THE GROUP

In recognising the importance of risk management and internal controls, the Board of Directors has established a structured risk management framework to identify, evaluate, control, monitor and report the principal business risks faced by the Group on an on-going basis. The key features of the risk management framework are set out in the Statement on Risk Management and Internal Control included in this Annual Report.

The Board of Directors has established internal control policies and procedures and monitored to ensure that such policies and procedures are is implemented and effectively carried out by the Management Team. The Group has in place an Information Technology Policy that outlines the processes that should be followed to create policies, best practices, standards and the use of the supporting information technologies. The Board of Directors is mindful of the legal implications if technology systems or information are misused in a manner which may be found to breach laws and regulations.

Guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, the Board of Directors performs reviews on an annual basis covering not only financial, but operational and compliance controls and risk management systems, in all material aspects. The Board of Directors is provided with reasonable assurance from the various reports submitted by Management and the Audit Committee on risk management and internal control system. Details on the Statement on Risk Management and Internal Control and Nestlé Malaysia Internal Audit Function are furnished in pages 18 to 20 of the Corporate Governance and Financial Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Board of Directors is aware of the need to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures pertaining to the Company and its subsidiaries to regulators, shareholders and stakeholders.

For the financial year under review, the corporate disclosure policies and procedures which have been adopted and implemented in the Company are as follows:

i) **Timely release of quarterly financial results**

The Group recognises the importance of prompt and timely dissemination of information to shareholders and investors, in order for these stakeholders to be able to make informed investment decisions. The Board of Directors is of the view that information that is not released in a timely manner, albeit comprehensive and accurate, would be less relevant for such investment purposes. As such, the Group accords a high priority in ensuring that information is made available and disseminated as early as possible. The prompt and timely release of financial results on a quarterly basis, as follows, enables shareholders to have an overview of the Group's performance and operations and to make informed investment decisions:

2013 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of Days after End of Quarter
1st Quarter	30.04.2013	31.05.2013	30
2nd Quarter	22.08.2013	31.08.2013	53
3rd Quarter	07.11.2013	30.11.2013	38
4th Quarter (including full year results)	24.02.2014	28.02.2014	55

ii) Investors relations

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of results to Bursa.

The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to investors, shareholders and media but also to keep the investing public and other stakeholders updated on the progress and development of the Group's business. The quarterly briefings are conducted by the Executive Director, Finance & Control.

In 2013, the Company held four (4) quarterly briefings for fund managers, institutional investors and investment analysts.

iii) Company website and authorised spokesperson

In addition to providing comprehensive insights into the Group's financial performance, the Board of Directors also recognises the importance of communicating the Group's business strategies, updates on the progress of the Group's current business initiatives as well as its financial performance during these briefings. In order to disseminate timely information across all external communications, from 2013 onwards, the Company has made available the Quarterly Reports on the Company's corporate website, www.nestle.com.my, where shareholders can access information under the 'Investor Relations' tab.

With the progressive interest and heightened investor awareness on the greater need for accountability and transparency, the Board of Directors places great importance in maintaining active dialogue and effective communication with shareholders and investors to enable them to make informed investment decisions. As part of the Company's commitment towards this objective, experienced Senior Management personnel are directly involved in the Company's investor relations activities. With the active involvement of the Senior Management personnel, the investment community is assured of views and information on the Group that is appropriate, accurate and timely. The details of the authorised Senior Management personnel responsible for Investor Relations are as follows:

Name	: Marc Seiler
Designation	: Executive Director, Finance & Control
Age	: 49 years
Address	: Nestlé (Malaysia) Berhad (110925-W) 22-1, 22nd Floor Menara Surian No. 1, Jalan PJU 7/3 Mutiara Damansara 47810 Petaling Jaya, Selangor Darul Ehsan
Tel No.	: 03 - 7965 6107
E-mail	: InvestorRelations.Malaysia@my.nestle.com

Further details of his qualification and relevant experience are found in the Profile of Directors on page 35 of the Corporate Report.

Corporate Governance Statement

It has been the Company's practice to respond to shareholders' letters, telephone and e-mail enquiries. Each letter or e-mail received, where it requires the attention of the Board of Directors, is reviewed by the Legal and Secretarial Department before the same is forwarded to the Board of Directors for its consideration.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, the Board of Directors is mindful of the legal and regulatory framework governing the release of material and price sensitive information.

iv) Related party transactions and material contracts

An internal compliance framework exists to ensure the Company meets its obligations under the Listing Requirements of Bursa, including obligations relating to related party transactions and recurrent related party transactions. The Board of Directors, through its Audit Committee, reviews all related party transactions and conflict of interest situations, if any, on a quarterly basis. A Director who has an interest in a transaction must abstain from deliberating and voting on the relevant resolution, in respect of such transaction at the meeting of the Board of Directors and at the Annual General Meeting or Extraordinary General Meeting convened to consider the said matter.

There are procedures established by the Group to ensure that all related party transactions are undertaken on an arm's length basis and on normal commercial terms, consistent with the Group's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to minority shareholders.

Salient features of the procedures relating to the governance of related party transactions are summarized as follows:

- all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders;
- all related party transactions are reported to the Audit Committee. Any member of the Audit Committee, where deemed fit, may request for additional information pertaining to the transactions, including advice from independent sources or advisers; and
- all recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions are recorded by the Company.

The Recurrent Related Party Transactions pursuant to shareholders' mandate entered into by the Group with its related parties from 02 May 2013 (the date of the last Annual General Meeting) to 03 March 2014, are as follows:

- purchases of semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM420 million;
- payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM180 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM29 million;
- sale of food products to Nestlé affiliated companies amounting to approximately RM720 million;
- billing for shared services of approximately RM2 million, RM2 million and RM1 million for Cereal Partners (Malaysia) Sdn. Bhd., Purina Petcare (Malaysia) Sdn. Bhd. and Wyeth Nutrition (Malaysia) Sdn. Bhd. (formerly known as Wyeth (Malaysia) Sdn. Bhd.) respectively.

For the financial year ended 31 December 2013, there were no material contracts entered into by the Group (not being contracts entered into in the ordinary course of business), involving Directors and substantial shareholders, except for material contracts in respect of the recurrent related party transactions of a revenue or trading nature which have been declared.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS

The Board of Directors believes that it is not only accountable to shareholders but also responsible for managing a successful and productive relationship with the Company's stakeholders.

Corporate Governance Statement

Annual Report and Shareholder Participation at General Meeting
The Board of Directors recognises the importance of maintaining transparency and accountability to the Company's shareholders. The Board of Directors ensures that all the Company's shareholders are treated equitably and the rights of all investors, including minority shareholders, are protected. The Board of Directors provides shareholders and investors with information on its business, financials and other key activities in the Annual Report of the Company, which contents are continuously enhanced to take into account the developments, amongst others, in corporate governance.

The Board of Directors aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board of Directors is guided by the principles set out in the Listing Requirements and the Nestlé Code of Business Conduct.

The Company sends out the Notice of the Annual General Meeting and related circular to shareholders at least 21 days before the meeting as required under the Listing Requirements, in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the Annual General Meeting, a full explanation is provided to shareholders on the effect of the proposed resolution emanating from the special business items. The Annual General Meeting is the principal opportunity for the Board of Directors to meet shareholders and for the Chairman to provide an overview of the Group's progress and receive questions from shareholders.

At the Annual General Meeting, shareholders actively participate in discussing the resolutions proposed or on future developments of the Group's operations in general. The Board of Directors, the Management Team and the Company's external auditors, are present to answer questions raised and provide clarification as required by shareholders.

All resolutions set out in the Notice of the Annual General Meeting, are put to vote by show of hands. In future, the Company shall endeavour, wherever possible, to put to vote of resolutions at the Annual General Meeting by poll, if required. A press conference is held immediately after the Annual General Meeting where the Managing Director and selected members of the Management Team provide updates to the media representatives of the resolutions passed and answer questions on matters relating to the Group. The outcome of the Annual General Meeting is announced to Bursa on the same meeting day.

At every Annual General Meeting, helpdesks are set up as a contact point for shareholders. The Company's primary contact with shareholders is through the Chairman, Managing Director, Executive Director, Finance & Control and the Company Secretary. All shareholders' queries are received by the Company Secretary. The Company Secretary provides feedback and responses to the shareholders' queries, save for sensitive information, which may not be privy to the general public. Written responses will also be given, when necessary.

The 2013 Annual General Meeting was held on 02 May 2013 at the Le Méridian Hotel, Kuala Lumpur. An increased number of shareholders were observed in comparison to the turn-up in the preceding year, indicating a higher level of engagement and participation by shareholders.

Communication and Engagement with Shareholders
The Company recognises the importance of being transparent and accountable to its stakeholders and as such, maintains an active and constructive communication policy that enables the Board of Directors and Management to communicate effectively with investors, financial community and the public generally.

The various channels of communications are through meetings with institutional shareholders and investment communities, quarterly announcements on financial results to Bursa, relevant announcements and circulars, when necessary, the Annual and Extraordinary General Meetings and through the Company's corporate website at www.nestle.com.my, from which shareholders and prospective investors can access corporate information, annual reports, press releases, financial information, company announcements and share prices of the Company. To maintain a high level of transparency and to effectively address any issues or concerns, the Group has a dedicated electronic mail, InvestorRelations.Malaysia@my.nestle.com, to which stakeholders can direct their queries or concerns.

Statement by the Board of Directors on Corporate Governance Statement
The Board of Directors has deliberated, reviewed and approved this Statement. The Board of Directors considers and is satisfied that to the best of its knowledge the Company has fulfilled its obligations under the Nestlé Code of Business Conduct, MCCG 2012, the relevant chapters of the Listing Requirements on corporate governance and all applicable laws and regulations throughout the financial year ended 31 December 2013. This Statement was presented and approved at the special meeting of the Board of Directors on 13 March 2014.

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors of Nestlé (Malaysia) Berhad ("Board") is committed towards maintaining a sound system of risk management and internal control and is pleased to provide this Statement on Risk Management and Internal Control (the "Statement") which outlines the scope and nature of risk management and internal controls of the Nestlé (Malaysia) Berhad and its subsidiaries ("Group") for the financial year ended 31 December 2013.

For the purpose of disclosure, this Statement is prepared pursuant to Paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia Securities Berhad and is guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

BOARD OF DIRECTORS RESPONSIBILITY

The Board of Directors is committed and acknowledges its overall responsibility to maintain the Group's system of internal control and risk management as well as for reviewing its adequacy, integrity and effectiveness to safeguard shareholders' investments and the Group's assets.

The Board of Directors recognises that a sound system of risk management and internal control is an integral part of good corporate governance. The Board of Directors and the Management Team are responsible and accountable for the establishment of internal controls for the Group. The Board of Directors has an on-going process for identifying, evaluating and managing significant risks faced by the Group. The Board of Directors has delegated the responsibility of monitoring the internal control and risk management systems to the Management Team. The risk management and internal control systems and processes are subjected to regular evaluations on their adequacy and effectiveness by the Management Team and are updated from time to time, including mitigating measures taken by the Management Team, via the Audit Committee to address areas of key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

The system of risk management and internal control covers not only financial controls but operational, risk and compliance controls as well. These systems are designed to manage, rather than eliminate, the risk of failure arising from non-achievement of the Group's policies, goals and objectives. Such systems provide reasonable, rather than absolute, assurance against material misstatement or loss.

The Audit Committee assists the Board of Directors to review the adequacy and effectiveness of the systems of risk management and internal control in the Group and ensures that appropriate methods and procedures are used to obtain the level of assurance required by the Board of Directors.

RISK MANAGEMENT FRAMEWORK

The Board of Directors and the Management Team fully support the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In support of the Nestlé Malaysia Internal Audit Department and prevailing practices of related companies, the Board of Directors and Management Team have put in place risk management guidelines, control measures and processes throughout the Group.

Risk management is firmly embedded in the Group's key processes through its Risk Management Framework, in line with Principle 6 and Recommendation 6.1 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"). Risk management practices are inculcated and entrenched in the activities of the Group, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Group.

Risk Management principles, policies, procedures and practices are periodically reviewed, with the results thereof communicated to the Board of Directors through the Audit Committee to ensure their continuing relevance and compliance with current/applicable laws and regulations.

NESTLÉ MALAYSIA INTERNAL AUDIT FUNCTION

The Nestlé Malaysia Internal Audit Department is responsible for reviewing all policies and processes of the Group and its relationship with third parties. It provides the Board of Directors through the Audit Committee with an independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of the Nestlé Malaysia Internal Audit Department include:

- assessing and reporting on the effectiveness of the risk and internal control systems;
- assessing and reporting on the reliability of systems and reporting information;
- assessing and reporting on the operational efficiency of various business units and departments within the Group and identifying saving potentials, where practical; and

Statement on Risk Management and Internal Control

- reviewing compliance with the Group policies, Company Standing Instructions and guidelines, and applicable laws and regulations.

The Nestlé Malaysia Internal Audit Department identifies its scope of audit based on risk assessments performed on (a) the inherent risk of the business unit/ departments; and (b) the complexity of the end to end processes within each business unit/department.

The results of the internal audits are reported on a quarterly basis to the Audit Committee and the report of the Audit Committee is a permanent agenda in the meeting of the Board of Directors. The Management Team's response on each internal audit recommendation and action plans therein, are regularly reviewed and followed up by the Nestlé Malaysia Internal Audit Department and reported to the Audit Committee. A matrix which covers the overall audit ratings, nature of work and scope, and audit issues and its priorities have been developed as a template to guide the conduct of the follow up audit. For the year ended 31 December 2013, the Nestlé Malaysia Internal Audit Department conducted eleven (11) internal audits across corporate function, warehouse, factories and business units. In addition, six (6) ad hoc reviews were conducted. Observations arising from the internal audit are presented, together with Management Team's response and proposed action plans, to the Audit Committee for its review and approval.

Furthermore, the Nestlé S.A. Audit Department, the internal auditing arm of the holding company Nestlé S.A., is also responsible for assessing the effectiveness of internal control for the Global Nestlé Group. The Nestlé S.A. Audit Department conducts reviews of processes, systems and business excellence on selected business areas/ units based on a Groupwide Risk Assessment Methodology. The annual internal audit plan and results of the Nestlé S.A. Audit Department are regularly reported to Regional Management and the Audit Committee of Nestlé S.A. For the year ended 31 December 2013, based on the approved annual audit plan and the risk assessment, four (4) audits were performed on the Group by the Nestlé S.A. Audit Department.

The annual audit plan for the financial year ended 31 December 2013 was presented and reviewed by the Audit Committee and approved by the Board of Directors in the last quarter of year 2012. The annual audit plan for the financial year 2014 was presented and reviewed by the Audit Committee and approved by the Board of Directors in the last quarter of year 2013.

OTHER RISK AND CONTROL PROCESSES

The overall governance structure and formally defined policy and procedures (via Company Standing Instructions) play a major part in establishing the control and the risk environment in the Group. Although the Group is a networked organisation, a documented and auditable trail of accountability have been established through relevant charters/ terms of reference and appropriate authority limits. In addition, authority limits and major Group Policies (health and safety, training and development, equality of opportunity, staff performance, sexual harassment, and serious misconduct) and the Nestlé S.A. Business Principles (available on www.nestle.com) have been disseminated and communicated to the Group's employees. These processes and procedures have been established and embedded across the whole organisation and provides assurance to all levels of Management, including the Board of Directors. The Nestlé Malaysia Internal Audit Department serves to assess the implementation and the effectiveness of these procedures and reporting structures, as well as to verify the system of risk management and internal controls.

The Managing Director also reports to the Board of Directors on significant changes in the business and the external environment which affects the operations.

Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board of Directors. In addition to the above, the Group leverages the Nestlé Self-Assessment Tool ("NSAT") for all business units and corporate functions, which were rolled out in 2008. NSAT, a globally driven initiative by Nestlé S.A. in response to the changes in the Swiss Code of Obligations for companies listed on the Swiss exchange, is an internally developed Control Self-Assessment Solution which is used to measure each unit's compliance with the minimum internal controls determined by the Group. The objective of control self-assessment is to help each unit better identify their own internal control gaps and to develop specific, measurable, and timely action plans to address these gaps. These results are monitored by the Management Team and reported to the Board of Directors through the Audit Committee, as well as to Nestlé S.A. by Nestlé S.A. Audit Department. NSAT also acts as a repository for best in class internal controls which may be shared with other Nestlé units across the world.

Statement on Risk Management and Internal Control

For the year ended 31 December 2013, based on the completed NSAT for the Group, there were no major gaps in respect to the minimum internal controls as determined by the Group. Improvement opportunities where identified, were addressed with action plans for implementation against expected completion dates and persons responsible. The Risk Management and Control Framework Function performs the follow-up audit to assess and report on the status of these action plans (i.e. implemented, in progress, or pending) on a monthly basis to the Finance Management.

A Business Ethics and Fraud Committee is in place to review all complaints/allegations lodged via the Hot Line or any other venues (e.g. phone, letter, e-mail). This committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. All fraud cases are also reported to Nestlé S.A by the Nestlé Malaysia Internal Audit Department.

ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board of Directors has received assurance from the Managing Director and Executive Director, Finance & Control that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, during the financial year under review. Taking into consideration the assurance from the Management Team and input from the relevant assurance providers, the Board of Directors is of the view and to the best of its knowledge that the system of risk management and internal control is satisfactory and is adequate to safeguard shareholders' investments, customers' interest and Group assets. The Group will continue to take measures to strengthen the internal control and risk management environment.

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2013 and reported to the Board of Directors that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

(a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or

(b) is factually inaccurate.

RPG 5 (Revised) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Audit Committee Report

SIZE AND COMPOSITION

Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail
Independent, Non-Executive Director
Chairman
(Chartered Accountant of the Australian Society of Certified Practising Accountants (CPA);
Chartered Accountant of the Malaysian Institute of Accountants)

Dato' Mohd. Rafik Bin Shah Mohamad
Independent, Non-Executive Director
Member
(Chartered Accountant of the Association of Chartered Certified Accountants, United Kingdom;
Chartered Accountant of the Malaysian Institute of Accountants)

Tan Sri Datuk (Dr.) Rafiah Binti Salim
Independent, Non-Executive Director
Member

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The Audit Committee acts as a committee of the Board of Directors and was established on 2 March 1994 under the Terms of Reference as stated herein.

OBJECTIVES

The Audit Committee is an independent committee which assists the Board of Directors in the discharge of its responsibilities for corporate governance, corporate control and financial reporting.

The Audit Committee acts on behalf of the Board of Directors to ensure that:

- the financial statements of the Group complies with applicable financial reporting standards;
- the internal audit function is operating effectively and in accordance with the Standards for the Professional Practice of Internal Auditing;
- adequate attention is paid to the effectiveness, efficiency and economy of the Group's operations;
- the quarterly results and year end financial statements are reviewed prior to the approval by the Board of Directors;
- adequate systems of governance, risk management and internal control are in operation so as to produce accurate and meaningful management information;
- management has implemented policies to ensure that the Company's risks are identified, evaluated and that internal controls in place are adequate and effective to address the risks; and
- appropriate and timely action is taken by the relevant managers to rectify the major areas of concern.

The Audit Committee reports to the Board of Directors every quarter, on matters falling within the Audit Committee's terms of reference.

DUTIES AND RESPONSIBILITIES

The Audit Committee is responsible in particular for:

Risk and Control

- evaluate if adequate risk assessment processes and measures are put in place to minimise any risk exposures, including fraud;
- review and evaluate, with the external and internal auditors, management procedures, which are designed to provide assurance of compliance with laws, regulations, policies and codes of practice or conduct;
- monitor systems and procedures, with external and internal auditors, which are designed to provide a satisfactory and effective level of internal control, asset protection and management information;
- monitor the Group's operations via appropriate internal audit reviews, to ascertain if adequate attention is paid to attributes of efficiency, effectiveness and economy; and
- review any conflict of interest situations and related party transactions.

Internal Audit

- review the internal audit reports of major audits which were undertaken;
- review the extent to which internal audit recommendations are implemented and the timeliness of responses received;
- review internal audit performance and effectiveness to ensure consistency with the approved plans, the Internal Audit Charter, and relevant professional standards; and
- review the adequacy of the scope, functions, competency and resources of the internal audit function.

Audit Committee Report

External Audit

- review management's responses to the external auditor's interim reports, annual report and management letters;
- monitor developments in the external audit field and standards issued by professional bodies and other regulatory authorities;
- oversee external audit arrangements that are in place at the various controlled entities or subsidiaries;
- review and monitor the suitability, competence and independence of the external auditors; and
- review the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the auditor's independence or objectivity.

Reporting

- review the quarterly and annual final draft of the financial statements (prior to the meeting of Board of Directors to approve the financial statements), receiving explanations for significant variations from the prior year and from budget, and referring issues to the Board of Directors, as and when necessary;
- monitor compliance with statutory requirements for financial reporting, with focus on significant changes in accounting policies and practices, together with significant adjustments recommended by external audit; and
- review compliance with all related party disclosures required by the Accounting Standards.

Others

- review as and when necessary any matters arising from the Group's financial operations; and
- commission such investigations or reviews relevant to its role as it sees fit.

Authority

The Audit Committee in the course of discharging its duties, is authorised to require any officer of the Group to supply such information and explanations as may be needed and to:

- have discussions with line managers and employees of the Group and subsidiaries at any reasonable time;
- draw assistance from qualified external party to advise on issues, where the members require expert input; and
- convene meetings with external auditors, the internal auditors or both, without the attendance of the other directors and employees of the Company, whenever necessary.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises of three (3) members who are all Independent Non-Executive Directors. The Chairman of the Audit Committee, Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail, and another member, Dato' Mohd. Rafik Bin Shah Mohamad, are both qualified Chartered Accountants, being members of the Malaysian Institute of Accountants. All members of the Audit Committee are financially literate and equipped with the required business skills.

A quorum, established by the presence of the Chairman, and at least one (1) other member, has always been met for the meetings of the Audit Committee.

The Audit Committee held four (4) meetings for the financial year ended 31 December 2013 and the attendance of members is as follows:

No.	Audit Committee Members	Meeting Attendance
1.	Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	4/4
2.	Dato' Mohd. Rafik Bin Shah Mohamad	4/4
3.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	3/4

Upon invitation by the Audit Committee, the Executive Director, Finance & Control, representatives of the external auditors, the Head, Nestlé Malaysia Internal Audit Department and the Head, Accounting & Consolidation, Insurance/Pension have attended all the meetings. When there is a need by the Audit Committee, the relevant members of the Management Team will also be invited to attend the meetings.

The Audit Committee also has the right to meet the external and/or the internal auditors without the presence of the Executive Directors or other Management Team.

Audit Committee Report

DUTIES AND RESPONSIBILITIES

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Activities with regards to external audit:

- review of external audit scope and audit plans based on the external auditors' presentation of audit strategy and plan;
- review of external audit results, audit reports, management letter and the response from the management; and
- review and evaluate factors relating to the independence of the external auditors.

The Audit Committee worked closely with the external auditors in establishing procedures to assess the suitability, objectivity, independence and quality of service of the external auditors, in confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Group in accordance with the independence criteria set out by the International Federation of Accountants and the Malaysian Institute of Accountants.

In line with our internal policy, the Company generally engages the external auditors only for audit purposes. However, as and when their non-audit expertise is required, the Company also engages its external auditor for the provision of non-audit activities. In 2013, the Company spent approximately RM53,090 on Non-Audit Fees representing 7.9% of the total fees to external auditors.

Activities with regards to internal audit:

- review of internal audit's resource requirements, scope, adequacy and function;
- review of internal audit's plan and programmes;
- review of internal audit reports, recommendations and management responses. Improvement actions in the areas of internal control, systems and efficiency enhancements suggested by the internal auditors were discussed together with the Management Team in a separate forum;
- review of implementation of these recommendations through follow up audit reports;
- suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement; and
- review and take cognisance of the movements of internal audit staff member.

Activities with regards to financial statements:

- review of annual report and the audited financial statements of the Company prior to submission to the Board of Directors for their perusal and approval. This is to ensure compliance of the financial statements with the provisions of the Companies Act 1965 and the applicable approved accounting standards as per the Malaysian Accounting Standards Board ("MASB");
- review of the Group's compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, MASB and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements; and
- review of the unaudited financial results announcements before recommending them for Board of Directors's approval.

Other activities:

- review of related party transactions and conflict of interest situations, ordinary and extraordinary dividend payments; and
- review of compliance with the Malaysian Code on Corporate Governance 2012 ("MCCG 2012").

Nestlé Malaysia Internal Audit function:

The Nestlé Malaysia Internal Audit function in the Group is aligned to the MCCG 2012. The Nestlé Malaysia Internal Audit is administered as a department within the Finance & Control function in the Group which reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit in Vevey, Switzerland, thus ensuring its independence. Its main role is to undertake independent and systematic reviews of the processes and guidelines of the Group and to report on their application and compliance, the details of which can be found on pages 18 to 20 of the Statement on Risk Management and Internal Control. The individual assessments are objectively reported to the Management and to the Audit Committee.

The Nestlé Malaysia Audit Department is headed by Anca Vetisan, 44 years of age, who has served within the worldwide Nestlé group of Companies for approximately 18 years. She was previously attached to the Finance and Control Division of Nestlé Romania. Anca Vetisan is a graduate of the Technical University in Romania, with a Bachelor Degree in Engineering.

The costs incurred for the internal audit function for the financial year ended 31 December 2013 is MYR1,587,000.

Financial Calendar

Results

Interim	- announced	22 August 2013
Final	- announced	24 February 2014

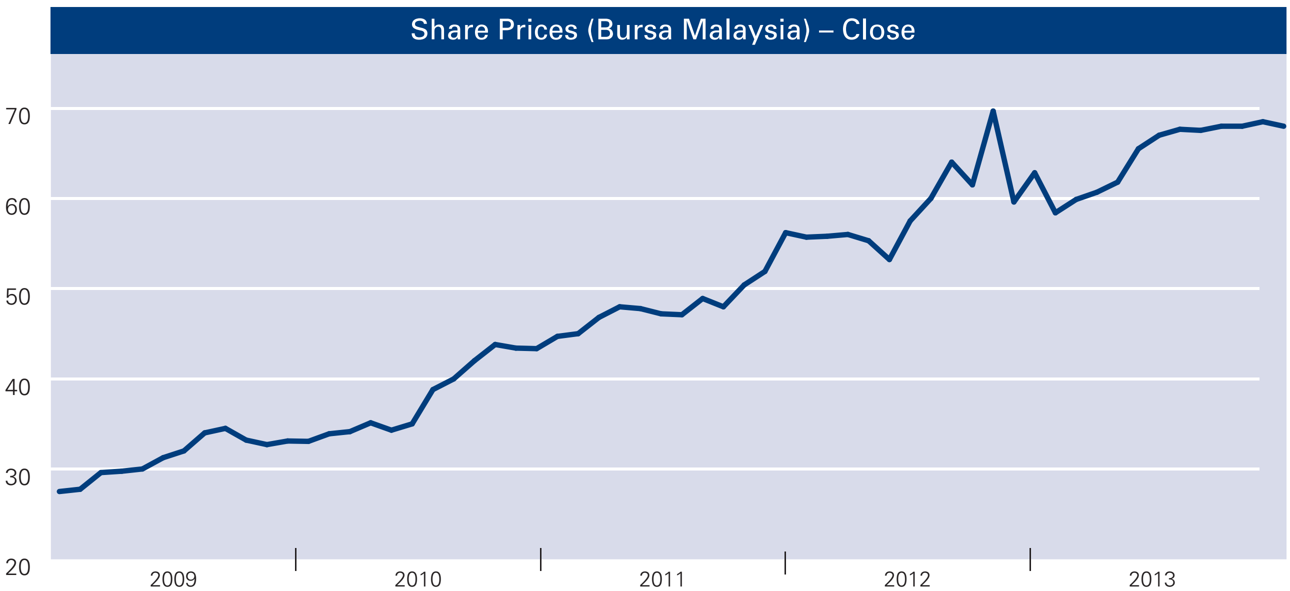
Dividends

Interim	- record date	12 September 2013
	- paid	3 October 2013
Final	- record date	15 May 2014
	- payable	5 June 2014

Annual General Meeting	24 April 2014

Share Performance

	Calendar Year				
	2013	**2012**	**2011**	**2010**	**2009**
During the year					
Highest - RM	**69.50**	70.20	57.00	45.00	35.68
Lowest - RM	**58.10**	51.50	43.34	33.00	27.00



Based on month-end closing price

Group Financial Highlights

		2013 (RM'000)	2012 (RM'000)	+ / (-)
TURNOVER		**4,787,925**	4,556,423	5.1%
EARNINGS / CASH FLOW				
Profit before tax		**719,054**	637,668	12.8%
% of turnover		**15.0%**	14.0%	
Profit after tax and minority interest		**561,701**	505,352	11.2%
% of turnover		**11.7%**	11.1%	
Dividends paid & proposed (net)		**551,075**	492,450	11.9%
Depreciation of fixed assets		**108,971**	101,601	
Cash flow (net profit + depreciation + amortisation)		**670,672**	606,953	
Capital expenditure		**212,217**	158,442	
Shareholders' funds		**816,444**	751,206	
PERSONNEL	(no.)	**6,064**	6,159	
FACTORIES	(no.)	**7**	7	
PER SHARE				
Market price [3]	(RM)	**68.00**	62.84	
Earnings [1]	(sen)	**239.53**	215.50	
Price earnings ratio		**28.39**	29.16	
Dividend (net)	(sen)	**235.00**	210.00	
Dividend yield	(%)	**3.5**	3.3	
Dividend cover [1]	(no.)	**1.0**	1.0	
Shareholders' funds	(RM)	**3.48**	3.20	
Net tangible assets [2]	(RM)	**3.22**	2.94	

Notes :

1 Earnings per share and dividend cover are based on profit after tax.

2 Net tangible assets consists of issued share capital plus reserves less intangible assets.

3 The market price represents last done price of the shares quoted on the last trading day of December.

5 Years' Statistics

for the year ended 31 December 2013

		2013 RM'000	2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000
TURNOVER		**4,787,925**	4,556,423	4,246,744	4,026,319	3,744,233
EARNINGS / CASH FLOW						
Profit before tax		**719,054**	637,668	558,809	465,744	440,261
% of turnover		**15.0%**	14.0%	13.2%	11.6%	11.8%
Profit after tax and minority interest		**561,701**	505,352	427,128	391,398	351,793
% of turnover		**11.7%**	11.1%	10.1%	9.7%	9.4%
Dividends paid & proposed (net)		**551,075**	492,450	422,100	386,925	351,750
Depreciation of fixed assets		**108,971**	101,601	101,894	101,112	87,952
Cash flow (net profit + depreciation + amortisation)		**670,672**	606,953	528,871	492,510	439,745
% of turnover		**14.0%**	13.3%	12.5%	12.2%	11.7%
Capital expenditure		**212,217**	158,442	93,015	143,915	257,131
EMPLOYMENT OF ASSETS						
Fixed assets (net)		**1,046,463**	945,812	889,741	897,505	860,253
Associated company		**3,619**	3,217	3,210	3,189	3,467
Intangible assets		**61,024**	61,024	61,024	61,024	61,024
Deferred tax assets		**25,775**	32,412	18,460	10,441	7,379
Trade and other receivables		**21,866**	22,001	23,802	22,653	22,923
Net current (liabilities)/assets		**(141,875)**	(88,689)	100,324	62,954	58,892
Total		**1,016,872**	975,777	1,096,561	1,057,766	1,013,938
FINANCED BY						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**581,944**	516,706	418,219	378,836	332,679
Total shareholders' funds		**816,444**	751,206	652,719	613,336	567,179
Deferred taxation		**82,748**	74,858	63,815	75,595	70,309
Retirement benefit liabilities		**25,337**	54,546	42,316	42,537	48,411
Borrowings		**92,343**	95,167	337,711	326,298	328,039
Total		**1,016,872**	975,777	1,096,561	1,057,766	1,013,938
PER SHARE						
Market price [3]	(RM)	**68.00**	62.84	56.20	43.34	33.10
Earnings [1]	(sen)	**239.53**	215.50	182.14	166.91	150.02
Price earnings ratio		**28.39**	29.16	30.86	25.97	22.06
Dividend (net)	(sen)	**235.00**	210.00	180.00	165.00	150.00
Dividend yield	(%)	**3.5**	3.3	3.2	3.8	4.5
Dividend cover [1]	(no.)	**1.0**	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	**3.48**	3.20	2.78	2.62	2.42
Net tangible assets [2]	(RM)	**3.22**	2.94	2.52	2.36	2.16
PERSONNEL	(no.)	**6,064**	6,159	5,731	5,284	5,442
FACTORIES	(no.)	**7**	7	7	7	7

Notes :

1 Earnings per share and dividend cover are based on profit after tax.

2 Net tangible assets consists of issued share capital plus reserves less intangible assets.

3 The market price represents last done price of the shares quoted on the last trading day of December.

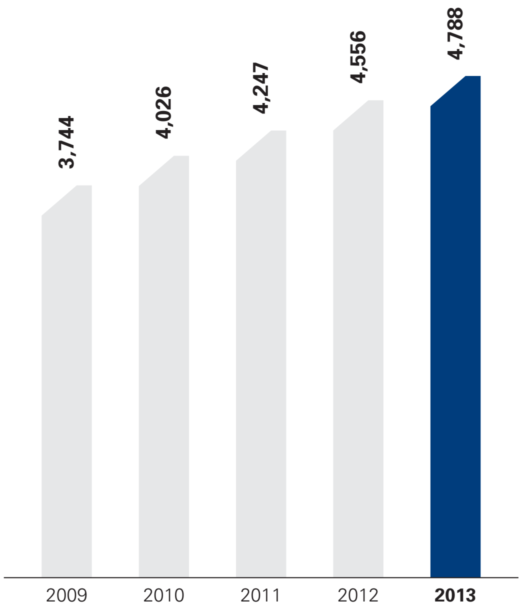
Financial Performance

Notes :

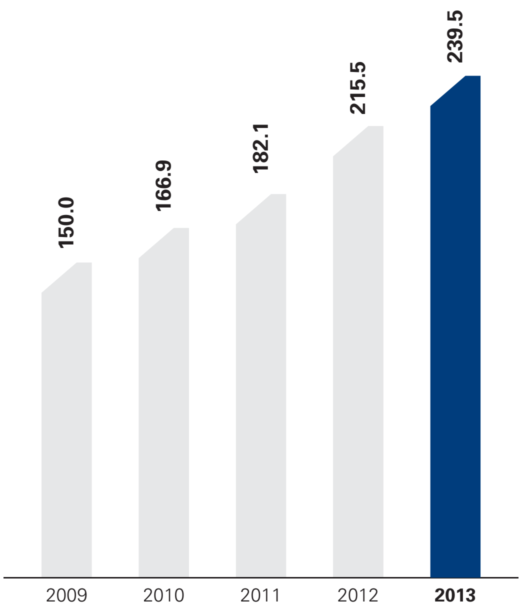
As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies.

For comparative purpose, only 2011 is adjusted to reflect the new turnover definition.

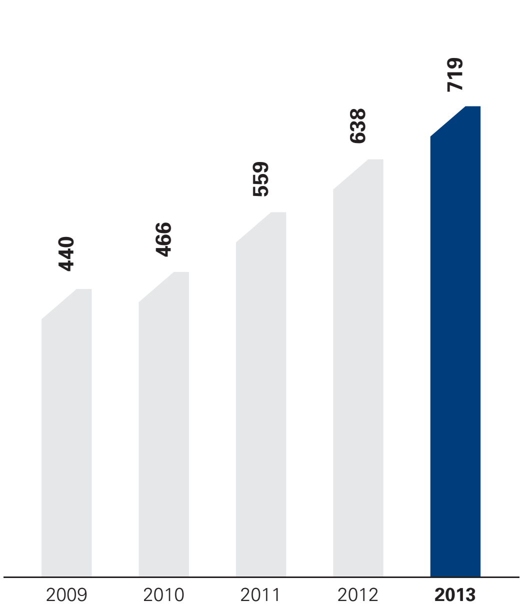
Turnover
(RM million)



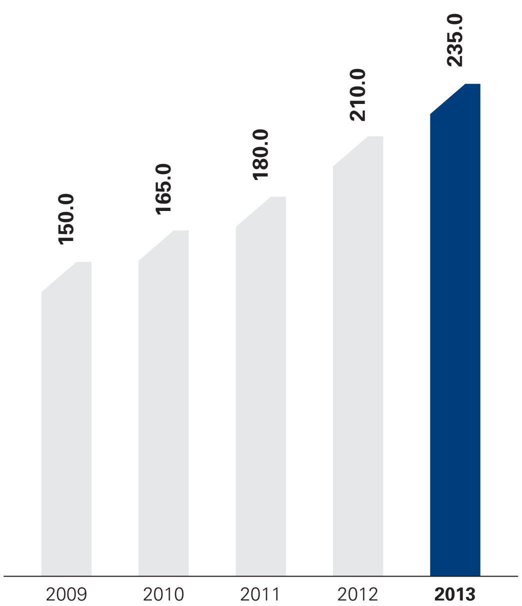
Earnings Per Share
(sen)



Pre-Tax Profit
(RM million)



Net Dividend Per Share
(sen)



Directors' Report

for the year ended 31 December 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	561,701	551,436

RESERVES AND PROVISIONS

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

DIVIDENDS

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

i) a final dividend of 155 sen per ordinary share, totalling RM363,475,000 in respect of the financial year ended 31 December 2012 on 13 June 2013; and

ii) an interim dividend of 60 sen per ordinary share, totalling RM140,700,000 in respect of the financial year ended 31 December 2013 on 3 October 2013.

The final dividend recommended by the Directors in respect of the financial year ended 31 December 2013 is 175 sen per ordinary share, totalling RM410,375,000.

Directors' Report

for the year ended 31 December 2013

DIRECTORS OF THE COMPANY

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

Director	Alternate
Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail (Chairman)	
Dato' Frits van Dijk	Mr Adnan Pawanteh
Dato' Mohd. Rafik bin Shah Mohamad	
Mr Alois Hofbauer (appointed on 22 February 2013)	Mr Marc Seiler (appointed on 22 February 2013)
Mr Marc Seiler	Mr Alois Hofbauer (appointed on 22 February 2013)
	Mr Peter Vogt (resigned on 21 February 2013)
Mr Peter Vogt (resigned on 21 February 2013)	Mr Marc Seiler (ceased on 21 February 2013)
Tan Sri Datuk (Dr.) Rafiah binti Salim	
Tan Sri Datuk Yong Poh Kon	
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong (appointed on 28 November 2013)	

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1 each			
	At 1.1.2013	Acquired	Sold	At 31.12.2013
Shareholdings in which Directors have direct interest				
Interests in the Company				
Dato' Frits van Dijk	8,000	–	–	**8,000**

	Number of ordinary shares of CHF0.1 each			
	At 1.1.2013	Acquired	Sold	At 31.12.2013
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	300,000	–	–	**300,000**
Mr Alois Hofbauer	900	1,815	–	**2,715**
Mr Marc Seiler	2,860	2,180	–	**5,040**

None of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' Report

for the year ended 31 December 2013

DIRECTORS' BENEFITS

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

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the issue of the Restricted Stock Unit Plan at the holding company.

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

Directors' Report

for the year ended 31 December 2013

OTHER STATUTORY INFORMATION (CONTINUED)

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

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

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

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

Alois Hofbauer

Marc Seiler

Petaling Jaya, Malaysia
24 February 2014

Statements of Financial Position

as at 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Assets					
Property, plant and equipment	3	**1,046,463**	945,812	**–**	–
Goodwill	4	**61,024**	61,024	**–**	–
Investments in subsidiaries	5	**–**	–	**188,022**	188,022
Investment in an associate	6	**3,619**	3,217	**3,000**	3,000
Deferred tax assets	7	**25,775**	32,412	**–**	–
Trade and other receivables	8	**21,866**	22,001	**–**	–
Total non-current assets		**1,158,747**	1,064,466	**191,022**	191,022
Trade and other receivables	8	**502,207**	394,144	**488,879**	441,590
Inventories	9	**408,614**	411,170	**–**	–
Current tax assets		**3,970**	796	**36**	28
Cash and cash equivalents	10	**15,196**	34,593	**–**	–
Total current assets		**929,987**	840,703	**488,915**	441,618
Total assets		**2,088,734**	1,905,169	**679,937**	632,640
Equity					
Share capital		**234,500**	234,500	**234,500**	234,500
Reserves		**33,407**	32,050	**33,000**	33,000
Retained earnings		**548,537**	484,656	**410,904**	363,643
Total equity attributable to owners of the Company	11	**816,444**	751,206	**678,404**	631,143
Liabilities					
Loans and borrowings	12	**92,343**	95,167	**–**	–
Employee benefits	13	**25,337**	54,546	**–**	–
Deferred tax liabilities	7	**82,748**	74,858	**–**	–
Total non-current liabilities		**200,428**	224,571	**–**	–
Loans and borrowings	12	**7,555**	4,223	**–**	–
Trade and other payables	14	**1,022,999**	872,045	**1,533**	1,497
Current tax liabilities		**41,308**	53,124	**–**	–
Total current liabilities		**1,071,862**	929,392	**1,533**	1,497
Total liabilities		**1,272,290**	1,153,963	**1,533**	1,497
Total equity and liabilities		**2,088,734**	1,905,169	**679,937**	632,640

The notes on pages 38 to 86 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Revenue		**4,787,925**	4,556,423	**551,075**	490,950
Cost of sales		**(3,089,908)**	(3,003,239)	**–**	–
Gross profit		**1,698,017**	1,553,184	**551,075**	490,950
Other income		**3,793**	5,715	**–**	33
Selling and distribution expenses		**(824,372)**	(758,635)	**–**	–
Administrative expenses		**(136,171)**	(139,663)	**(1,760)**	(2,467)
Other expenses		**(6,625)**	(3,726)	**–**	–
Results from operating activities	15	**734,642**	656,875	**549,315**	488,516
Finance income		**5,947**	929	**2,711**	2,758
Finance costs		**(21,937)**	(20,131)	**–**	–
Net finance (costs)/income		**(15,990)**	(19,202)	**2,711**	2,758
Share of profit/(loss) of an equity accounted associate, net of tax		**402**	(5)	**–**	–
Profit before tax		**719,054**	637,668	**552,026**	491,274
Income tax expense	17	**(157,353)**	(132,316)	**(590)**	(802)
Profit for the year		**561,701**	505,352	**551,436**	490,472
Other comprehensive income, net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		**1,357**	21,490	**–**	–
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		**6,355**	(6,255)	**–**	–
Other comprehensive income for the year, net of tax	18	**7,712**	15,235	**–**	–
Total comprehensive income for the year		**569,413**	520,587	**551,436**	490,472
Basic and diluted earnings per ordinary share (sen)	19	**240**	216		

The notes on pages 38 to 86 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

		Attributable to owners of the Company				
		Non-distributable			Distributable	
Group	**Note**	**Share capital**	**Share premium**	**Hedging reserve**	**Retained earnings**	**Total equity**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2012		234,500	33,000	(22,440)	407,659	652,719
Cash flow hedge		–	–	21,490	–	21,490
Remeasurement of defined benefit liability		–	–	–	(6,255)	(6,255)
Other comprehensive income/(expense) for the year		–	–	21,490	(6,255)	15,235
Profit for the year		–	–	–	505,352	505,352
Total comprehensive income for the year		–	–	21,490	499,097	520,587
Dividends to owners of the Company	20	–	–	–	(422,100)	(422,100)
Total transactions with owners of the Company		–	–	–	(422,100)	(422,100)
At 31 December 2012/1 January 2013		**234,500**	**33,000**	**(950)**	**484,656**	**751,206**
Cash flow hedge		**–**	**–**	**1,357**	**–**	**1,357**
Remeasurement of defined benefit liability		**–**	**–**	**–**	**6,355**	**6,355**
Other comprehensive income for the year		**–**	**–**	**1,357**	**6,355**	**7,712**
Profit for the year		**–**	**–**	**–**	**561,701**	**561,701**
Total comprehensive income for the year		**–**	**–**	**1,357**	**568,056**	**569,413**
Dividends to owners of the Company	20	**–**	**–**	**–**	**(504,175)**	**(504,175)**
Total transactions with owners of the Company		**–**	**–**	**–**	**(504,175)**	**(504,175)**
At 31 December 2013		**234,500**	**33,000**	**407**	**548,537**	**816,444**

The notes on pages 38 to 86 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2013

Company	Note	Attributable to owners of the Company — Non-distributable — Share capital RM'000	Share premium RM'000	Distributable — Retained earnings RM'000	Total equity RM'000
At 1 January 2012		234,500	33,000	295,271	562,771
Profit and total comprehensive income for the year		–	–	490,472	490,472
Dividends to owners of the Company	20	–	–	(422,100)	(422,100)
Total transactions with owners of the Company		–	–	(422,100)	(422,100)
At 31 December 2012/1 January 2013		**234,500**	**33,000**	**363,643**	**631,143**
Profit and total comprehensive income for the year		**–**	**–**	**551,436**	**551,436**
Dividends to owners of the Company	20	**–**	**–**	**(504,175)**	**(504,175)**
Total transactions with owners of the Company		**–**	**–**	**(504,175)**	**(504,175)**
At 31 December 2013		**234,500**	**33,000**	**410,904**	**678,404**

The notes on pages 38 to 86 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from operating activities					
Profit before tax		**719,054**	637,668	**552,026**	491,274
Adjustments for:					
Depreciation on property, plant and equipment	3	**108,971**	101,601	**–**	–
Dividend income		**–**	–	**(551,075)**	(490,950)
Expenses related to defined benefit plans	13	**82**	24,291	**–**	–
Finance costs		**21,937**	20,131	**–**	–
Finance income		**(5,947)**	(929)	**(2,711)**	(2,758)
Loss on disposal of property, plant and equipment	15	**1,647**	269	**–**	–
Property, plant and equipment written off	15	**618**	437	**–**	–
Share-based payments	15	**10,082**	5,678	**–**	–
Share of (profit)/loss of an equity accounted associate, net of tax		**(402)**	5	**–**	–
Operating profit/(loss) before changes in working capital		**856,042**	789,151	**(1,760)**	(2,434)
Change in inventories		**2,556**	106,403	**–**	–
Change in trade and other payables		**56,284**	11,092	**36**	754
Change in trade and other receivables		**(70,070)**	62,402	**1,111**	(339)
Cash generated from/(used in) operations		**844,812**	969,048	**(613)**	(2,019)
Dividends received from subsidiaries		**–**	–	**502,675**	422,100
Employee benefits paid		**(20,817)**	(20,401)	**–**	–
Income tax paid		**(160,387)**	(119,995)	**(598)**	(739)
Net cash from operating activities		**663,608**	828,652	**501,464**	419,342
Cash flows from investing activities					
Acquisition of property, plant and equipment	*(ii)*	**(212,217)**	(158,442)	**–**	–
Finance income received		**5,947**	929	**2,711**	2,758
Proceeds from disposal of property, plant and equipment		**2,290**	1,810	**–**	–
Net cash (used in)/from investing activities		**(203,980)**	(155,703)	**2,711**	2,758

Statements of Cash Flows

for the year ended 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash flows from financing activities					
Dividends paid to owners of the Company	20	**(504,175)**	(422,100)	**(504,175)**	(422,100)
Finance costs paid		**(21,937)**	(20,131)	**–**	–
Payment of finance lease liabilities		**(4,311)**	(4,290)	**–**	–
Proceeds from/(Repayment of) borrowings		**48,539**	(244,296)	**–**	–
Net cash used in financing activities		**(481,884)**	(690,817)	**(504,175)**	(422,100)
Net decrease in cash and cash equivalents		**(22,256)**	(17,868)	**–**	–
Cash and cash equivalents at 1 January	*(i)*	**34,593**	52,461	**–**	–
Cash and cash equivalents at 31 December	*(i)*	**12,337**	34,593	**–**	–

(i) *Cash and cash equivalents*

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

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Cash and bank balances	10	**11,864**	18,936	**–**	–
Deposits placed with licensed banks	10	**3,332**	15,657	**–**	–
Bank overdraft	12	**(2,859)**	–	**–**	–
		12,337	34,593	**–**	–

(ii) *Acquisition of property, plant and equipment*

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM214,177,000 (2012: RM160,188,000), of which RM1,960,000 (2012: RM1,746,000) were acquired by means of finance leases.

The notes on pages 38 to 86 are an integral part of these financial statements.

Notes to the Financial Statements

Nestlé (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office, which is also its principal place of business is as follows:

22-1, 22nd Floor, Menara Surian
No 1, Jalan PJU7/3
Mutiara Damansara
47810 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate. The financial statements of the Company as at and for the financial year ended 31 December 2013 do not include other entities.

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in note 5 to the financial statements.

The holding company during the financial year was Nestlé S.A., a company incorporated in Switzerland.

The financial statements were authorised for issue by the Board of Directors on 24 February 2014.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board but have not been adopted by the Group and the Company:

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

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations:

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

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

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and of the Company.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in note 2.

(c) Functional and presentation currency

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

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in note 4 - measurement of the recoverable amounts of cash-generating units.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control existed when the Group had the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights were considered when assessing control when such rights were presently exercisable.
- The Group considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider *de facto* power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

(b) Loans and receivables

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

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

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

Financial liabilities

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

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

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

(iii) Hedge accounting

Cash flow hedge

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iv) Derecognition

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

Capital work-in-progress is stated at cost. All other property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date and in accordance to note 2(q).

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- leasehold land — 46 – 65 years
- buildings — 25 – 50 years
- plant and machinery — 10 – 25 years
- tools, furniture and equipment — 5 – 8 years
- motor vehicles — 5 years
- information systems — 3 – 10 years

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

(e) Leased assets

(i) Finance lease

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(ii) Operating lease

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(f) Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is tested for impairment annually or more frequently if events or circumstances indicate that an asset might be impaired.

(g) Inventories

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

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

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

(h) Cash and cash equivalents

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

(i) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and investment in an associate) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

(ii) Other assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

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

(iii) Defined benefit plans

As a result of adopting MFRS 119, *Employee Benefits* (2011), the Group has changed its accounting policy in respect of the basis for determining the income or expense relating to its post employment defined benefit plans.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The change in accounting policy has been made retrospectively. The adoption of MFRS 119 (2011) has no significant impact to the financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer to those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(v) Share-based payment transactions

Restricted Stock Unit Plan ("RSUP")

Certain employees of the Group are entitled to RSUP that gives the right to Nestlé S.A. shares. The fair value of the RSUP granted to these employees is recognised as an employee expense in profit or loss, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the vesting conditions are met.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(l) Revenue and other income

(i) Goods sold

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

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established.

(iii) Interest income

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(n) Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

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

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

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

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Earnings per share

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

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Operating segments

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

(q) Fair value measurement

From 1 January 2013, the Group adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Group applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Group's assets or liabilities other than the additional disclosures.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 January 2012	96,007	349,946	1,494,538	19,576	80,376	16,477	2,056,920
Additions	–	17,455	109,126	1,876	9,165	22,566	160,188
Disposals	–	(3,003)	(10,170)	(3,236)	(141)	–	(16,550)
Written off	–	(23)	(8,159)	–	(302)	–	(8,484)
Transfer in/(out)	–	2,617	12,890	–	790	(16,297)	–
At 31 December 2012/1 January 2013	**96,007**	**366,992**	**1,598,225**	**18,216**	**89,888**	**22,746**	**2,192,074**
Additions	**–**	**18,202**	**86,220**	**2,134**	**7,055**	**100,566**	**214,177**
Disposals	**–**	**(22)**	**(11,104)**	**(5,409)**	**(3,334)**	**–**	**(19,869)**
Written off	**–**	**(86)**	**(8,416)**	**–**	**(81)**	**–**	**(8,583)**
Transfer in/(out)	**–**	**1,665**	**11,611**	**–**	**1,106**	**(14,382)**	**–**
At 31 December 2013	**96,007**	**386,751**	**1,676,536**	**14,941**	**94,634**	**108,930**	**2,377,799**
Depreciation and impairment loss							
At 1 January 2012							
Accumulated depreciation	9,213	104,852	962,488	10,340	59,173	–	1,146,066
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	9,213	111,136	977,170	10,340	59,320	–	1,167,179
Depreciation for the year	1,711	8,325	83,138	1,965	6,462	–	101,601
Disposals	–	(2,416)	(9,069)	(2,847)	(139)	–	(14,471)
Written off	–	(5)	(7,773)	–	(269)	–	(8,047)
At 31 December 2012							
Accumulated depreciation	10,924	110,756	1,028,784	9,458	65,227	–	1,225,149
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	10,924	117,040	1,043,466	9,458	65,374	–	1,246,262

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss (continued)							
At 1 January 2013							
Accumulated depreciation	**10,924**	**110,756**	**1,028,784**	**9,458**	**65,227**	**–**	**1,225,149**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	10,924	**117,040**	**1,043,466**	**9,458**	**65,374**	**–**	**1,246,262**
Depreciation for the year	**1,711**	**8,977**	**89,407**	**1,925**	**6,951**	**–**	**108,971**
Disposals	**–**	**(5)**	**(8,613)**	**(3,994)**	**(3,320)**	**–**	**(15,932)**
Written off	**–**	**(15)**	**(7,872)**	**–**	**(78)**	**–**	**(7,965)**
At 31 December 2013							
Accumulated depreciation	**12,635**	**119,713**	**1,101,706**	**7,389**	**68,780**	**–**	**1,310,223**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	12,635	**125,997**	**1,116,388**	**7,389**	**68,927**	**–**	**1,331,336**
Carrying amounts							
At 31 December 2012/1 January 2013	**85,083**	**249,952**	**554,759**	**8,758**	**24,514**	**22,746**	**945,812**
At 31 December 2013	**83,372**	**260,754**	**560,148**	**7,552**	**25,707**	**108,930**	**1,046,463**

Leased plant and machinery

At 31 December 2013, the net carrying amount of leased plant and machinery of the Group was RM10,950,000 (2012: RM13,910,000).

The Group leases production equipment under a number of finance lease agreements. All finance leases provide the Group with the option to purchase the equipment at a beneficial price and others transfer ownership of the assets to the Group at the end of the lease term.

The leased plant and machinery secures lease obligations (see note 12).

Notes to the Financial Statements

4. GOODWILL

	Group 2013 RM'000	Group 2012 RM'000
Cost/Carrying amounts	**61,024**	61,024

The goodwill relates to the Group's ice-cream business unit.

Impairment testing

The recoverable amount of the ice-cream business unit is higher than its carrying amount and was based on the value in use.

Value in use was determined by discounting the future cash flows generated from the continuing operation of the ice-cream business unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 9-year business plan.
- The anticipated annual growth rate is estimated to be 4% to 9%.
- The unit will continue its operations indefinitely.
- A discount rate of 8.3% (2012: 7.2%) was applied.
- The size of operations will remain with at least or not lower than the current results.

The key assumptions represent management's assessment of future trends in the ice-cream industry and are based on both external sources and internal sources (historical data).

5. INVESTMENTS IN SUBSIDIARIES

	Company 2013 RM'000	Company 2012 RM'000
At cost		
Unquoted shares	**188,022**	188,022

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of entity	Principal place of business/Country of incorporation	Principal activities	Effective ownership interest and voting interest 2013 %	2012 %
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionary products, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	**100**	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Inactive	**100**	100

Notes to the Financial Statements

6. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At cost				
Unquoted shares	**3,000**	3,000	**3,000**	3,000
Share of post-acquisition reserves	**619**	217	**–**	–
	3,619	3,217	**3,000**	3,000

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Property, plant and equipment	**–**	–	**(100,902)**	(93,917)	**(100,902)**	(93,917)
Employee benefit plans	**6,335**	13,636	**–**	–	**6,335**	13,636
Provisions	**20,522**	19,431	**–**	–	**20,522**	19,431
Hedging reserve	**–**	316	**(136)**	–	**(136)**	316
Unutilised tax incentives	**17,208**	18,088	**–**	–	**17,208**	18,088
Tax assets/(liabilities)	**44,065**	51,471	**(101,038)**	(93,917)	**(56,973)**	(42,446)
Set off of tax	**(18,290)**	(19,059)	**18,290**	19,059	**–**	–
Net tax assets/(liabilities)	**25,775**	32,412	**(82,748)**	(74,858)	**(56,973)**	(42,446)

Movement in temporary differences during the year

Group	At 1.1.2012 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2012/ 1.1.2013 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2013 RM'000
Property, plant and equipment	(86,970)	(6,947)	–	**(93,917)**	**(6,985)**	**–**	**(100,902)**
Employee benefit plans	10,579	972	2,085	**13,636**	**(5,182)**	**(2,119)**	**6,335**
Provisions	11,698	7,733	–	**19,431**	**1,091**	**–**	**20,522**
Hedging reserve	7,479	–	(7,163)	**316**	**–**	**(452)**	**(136)**
Unutilised tax incentives	11,859	6,229	–	**18,088**	**(880)**	**–**	**17,208**
	(45,355)	7,987	(5,078)	**(42,446)**	**(11,956)**	**(2,571)**	**(56,973)**

8. TRADE AND OTHER RECEIVABLES

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Non-current					
Loans to employees		**21,866**	22,001	**–**	–
Current					
Trade					
Trade receivables		**181,480**	168,555	**–**	–
Less: Impairment loss		**(4,117)**	(3,972)	**–**	–
		177,363	164,583	**–**	–
Amounts due from related companies	8.1	**143,170**	126,297	**–**	–
Amount due from an associate	8.1	**2,700**	9,895	**–**	–
Designated as hedging instruments					
– Commodity futures		**2,163**	–	**–**	–
– Forward exchange contracts		**6,864**	2,245	**–**	–
		332,260	303,020	**–**	–
Non-trade					
Amounts due from subsidiaries	8.2	**–**	–	**488,759**	441,470
Amounts due from related companies	8.1	**31,511**	15,988	**–**	–
Other receivables, deposits and prepayments	8.3	**138,436**	75,136	**120**	120
		169,947	91,124	**488,879**	441,590
		502,207	394,144	**488,879**	441,590
Total		**524,073**	416,145	**488,879**	441,590

8.1 Amounts due from related companies and an associate

The trade receivables due from related companies and an associate are subject to the normal trade terms. The non-trade receivables due from related companies are unsecured, interest free and repayable on demand, except for advances to related companies of RM31,435,000 (2012: RM15,944,000) which is subject to interest at 3.16% to 3.91% (2012: 3.16% to 3.86%) per annum.

8.2 Amounts due from subsidiaries

The non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand, except for advances to a subsidiary of RM78,132,000 (2012: RM79,276,000) which is subject to interest at 3.16% to 3.91% (2012: 3.16% to 3.86%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM11,812,000 (2012: RM10,502,000) which are unsecured and interest free and down payment to vendors of RM54,468,000 (2012: RM27,889,000).

Notes to the Financial Statements

9. INVENTORIES

	Group 2013 RM'000	Group 2012 RM'000
Raw and packaging materials	**179,964**	181,714
Work-in-progress	**19,817**	18,951
Finished goods	**187,317**	189,403
Spare parts	**21,516**	21,102
	408,614	411,170
Recognised in profit or loss		
– Inventories recognised as cost of sales	**2,809,719**	2,774,580

10. CASH AND CASH EQUIVALENTS

	Group 2013 RM'000	Group 2012 RM'000
Cash and bank balances	**11,864**	18,936
Deposits placed with licensed banks	**3,332**	15,657
	15,196	34,593

11. CAPITAL AND RESERVES

Share capital

	Group and Company			
	Amount 2013 RM'000	Number of shares 2013 '000	Amount 2012 RM'000	Number of shares 2012 '000
Authorised				
Ordinary shares of RM1 each	**300,000**	**300,000**	300,000	300,000
Issued and fully paid shares classified as equity instruments				
Ordinary shares of RM1 each	**234,500**	**234,500**	234,500	234,500

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

Share premium relates to the amount that ordinary shareholders have paid for the shares in excess of the nominal value.

Hedging reserve

Hedging reserve relates to the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

Notes to the Financial Statements

12. LOANS AND BORROWINGS

	Note	Group 2013 RM'000	Group 2012 RM'000
Non-current			
Loan from a related company - unsecured		**84,264**	84,264
Finance lease liabilities	12.1	**8,079**	10,903
		92,343	95,167
Current			
Finance lease liabilities	12.1	**4,696**	4,223
Bank overdraft - unsecured		**2,859**	–
		7,555	4,223
		99,898	99,390

12.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2013 RM'000	Interest 2013 RM'000	Present value of minimum lease payments 2013 RM'000	Future minimum lease payments 2012 RM'000	Interest 2012 RM'000	Present value of minimum lease payments 2012 RM'000
Less than one year	**5,306**	**610**	**4,696**	4,976	753	4,223
Between one and five years	**8,844**	**765**	**8,079**	11,970	1,067	10,903
	14,150	**1,375**	**12,775**	16,946	1,820	15,126

Notes to the Financial Statements

13. EMPLOYEE BENEFITS

13.1 Retirement benefits

	Group	
	2013 RM'000	2012 RM'000
Net defined benefit liability/ Total employee benefits liabilities	**25,337**	54,546

The Group operates a defined benefit scheme which is administered by Nestlé Malaysia Group Retirement Scheme.

The Scheme provides non-indexed retirement pensions to employees who had been in the Group service before 1 January 1992, based on a percentage of final pay and with total Employees Provident Fund ("EPF") benefits derived from employee and employer contributions made throughout the period of EPF membership integrated thereto. For employees whose services with the Group commence on or after 1 January 1992, lump sum retirement benefits are made available under the Scheme, in place of the monthly pension, equal to the accumulation of Group contributions plus interest credited at EPF dividend rate.

The defined benefit plans expose the Group to actuarial risks, such as market (investment) risk.

Funding

The plan is fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plans.

The Group expects to pay RM20,811,000 in contributions to its defined benefit plans in 2014.

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balance to the closing balance for net defined benefit liability and its components:

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2013	**264,084**	**(209,538)**	**54,546**
Included in profit or loss			
Current service cost	**7,625**	**–**	**7,625**
Past service credit	**(10,728)**	**–**	**(10,728)**
Interest cost/(income)	**17,114**	**(13,929)**	**3,185**
	14,011	**(13,929)**	**82**
Included in other comprehensive income			
Remeasurement loss/(gain):			
Actuarial loss/(gain) arising from			
– Financial assumptions	**5,583**	**–**	**5,583**
– Experience adjustments	**(14,542)**	**–**	**(14,542)**
Return on plan assets, excluding interest income	**–**	**651**	**651**
	(8,959)	**651**	**(8,308)**
Other			
Contributions paid by the employer	**–**	**(20,817)**	**(20,817)**
Benefits paid	**(23,633)**	**23,633**	**–**
Liability assumed from Purina Pension Fund	**1,304**	**(1,470)**	**(166)**
At 31 December 2013	**246,807**	**(221,470)**	**25,337**

Notes to the Financial Statements

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Movement in net defined benefit liability (continued)

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2012	229,831	(187,515)	42,316
Included in profit or loss			
Current service cost	10,050	–	10,050
Past service credit	11,831	–	11,831
Interest cost/(income)	14,897	(12,487)	2,410
	36,778	(12,487)	24,291
Included in other comprehensive income			
Remeasurement loss/(gain):			
Actuarial loss/(gain) arising from			
– Financial assumptions	9,048	–	9,048
– Experience adjustments	4,430	–	4,430
Return on plan assets, excluding interest income	–	(5,138)	(5,138)
	13,478	(5,138)	8,340
Other			
Contributions paid by the employer	–	(20,401)	(20,401)
Benefits paid	(16,003)	16,003	–
At 31 December 2012	264,084	(209,538)	54,546

With effect from 1 July 2013, the retirement age for employees hired before 1 January 2005 has been adjusted from 55 years to 60 years. As a consequence of the change in the retirement age, a past service credit was recognised immediately in the profit or loss.

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Plan assets

Plan assets comprise:

	Group 2013 RM'000	Group 2012 RM'000
Equity securities	**103,443**	96,796
Government bonds	**42,441**	41,602
Corporate bonds	**45,000**	45,142
Cash and cash equivalents	**21,481**	17,476
Others	**9,105**	8,522
	221,470	209,538

The pension fund has a strategic asset mix policy comprising 50% equity securities, 30% bonds and 20% other investments.

Defined benefit obligation

Actuarial assumptions

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages):

	Group 2013	Group 2012
Discount rate	**6.50%**	6.75%
Expected return on plan assets	**6.50%**	7.00%
Future salary increases	**5.00%**	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 21.1 years for both males and females at the end of the reporting date.

At 31 December 2013, the weighted-average duration of the defined benefit obligation was 10.45 years.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

2013	Group Defined benefit obligation Increase RM'000	Group Defined benefit obligation Decrease RM'000
Discount rate (0.5% movement)	**(10,867)**	**11,932**
Future salary growth (0.5% movement)	**1,503**	**(1,260)**
Future pension growth (0.5% movement)	**933**	**(759)**
Future mortality (1 year movement)	**(3,484)**	**3,568**

Although the analysis does not account to the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the Financial Statements

14. TRADE AND OTHER PAYABLES

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Trade					
Trade payables		**591,998**	617,217	**–**	–
Amounts due to related companies	14.1	**89,593**	58,007	**–**	–
Amount due to an associate	14.1	**12,995**	13,300	**–**	–
Designated as hedging instruments					
– Commodity futures		**–**	2,874	**–**	–
– Forward exchange contracts		**7,474**	646	**–**	–
		702,060	692,044	**–**	–
Non-trade					
Amounts due to related companies	14.1	**80,050**	1,973	**–**	87
Other payables		**98,972**	50,733	**391**	612
Accrued expenses		**141,917**	127,295	**1,142**	798
		320,939	180,001	**1,533**	1,497
		1,022,999	872,045	**1,533**	1,497

14.1 Amounts due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, interest free and repayable on demand, except for advances from related companies of RM78,271,000 (2012: Nil) which is subject to interest at 3.16% to 3.91% (2012: Nil) per annum.

15. RESULTS FROM OPERATING ACTIVITIES

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration					
– Statutory audit					
KPMG in Malaysia		**529**	496	**137**	124
– Other services					
KPMG in Malaysia		**173**	231	**–**	223
Affiliates of KPMG in Malaysia		**21**	25	**1**	1
Depreciation of property, plant and equipment	3	**108,971**	101,601	**–**	–
Impairment loss on trade receivables (net)		**145**	17	**–**	–
Loss on disposal of property, plant and equipment		**1,647**	269	**–**	–
Net foreign exchange loss					
– Realised		**5,449**	–	**–**	–
– Unrealised		**95**	–	**–**	–
Personnel expenses (including key management personnel)					
– Contributions to Employees Provident Fund		**39,439**	36,076	**–**	–
– Expenses related to defined benefit plans	13	**82**	24,291	**–**	–
– Share-based payments		**10,082**	5,678	**–**	–
– Wages, salaries and others		**475,014**	436,265	**–**	–
Property, plant and equipment written off		**618**	437	**–**	–
Rental expenses on land and buildings		**50,506**	50,062	**–**	–
and after crediting:					
Dividend income from					
– Subsidiaries (unquoted)		**–**	–	**551,075**	490,950
Net foreign exchange gain					
– Realised		**–**	9,979	**–**	33
– Unrealised		**–**	238	**–**	–

Notes to the Financial Statements

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Directors				
– Fees	**320**	320	**320**	320
– Remuneration	**5,052**	5,136	**–**	–
– Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**929**	969	**50**	50
Total short-term employee benefits	**6,301**	6,425	**370**	370
Post-employment benefits	**385**	501	**–**	–
Share-based payments	**1,227**	1,525	**–**	–
	7,913	8,451	**370**	370
Other key management personnel				
– Short-term employee benefits	**8,219**	7,960	**–**	–
– Post-employment benefits	**216**	361	**–**	–
– Share-based payments	**1,382**	1,952	**–**	–
	9,817	10,273	**–**	–
	17,730	18,724	**370**	370

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

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf.

17. INCOME TAX EXPENSE

Recognised in the profit or loss

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Income tax expense		**157,353**	132,316	**590**	802
Major components of income tax expense include:					
Current tax expense					
Malaysian – current year		**161,596**	138,297	**597**	696
– prior year		**(16,199)**	2,006	**(7)**	106
Total current tax recognised in profit or loss		**145,397**	140,303	**590**	802
Deferred tax expense					
Origination and reversal of temporary differences		**11,956**	(5,097)	**–**	–
Over provided in prior years		**–**	(2,890)	**–**	–
Total deferred tax recognised in profit or loss	7	**11,956**	(7,987)	**–**	–
Total income tax expense		**157,353**	132,316	**590**	802
Reconciliation of tax expense					
Profit for the year		**561,701**	505,352	**551,436**	490,472
Total income tax expense		**157,353**	132,316	**590**	802
Profit excluding tax		**719,054**	637,668	**552,026**	491,274
Income tax calculated using Malaysian tax rate of 25%		**179,764**	159,417	**138,007**	122,819
Non-deductible expenses		**3,512**	3,980	**359**	615
Tax exempt income		**–**	–	**(137,769)**	(122,738)
Tax incentives		**(16,793)**	(30,322)	**–**	–
Other items		**7,069**	125	**–**	–
(Over)/Under provided in prior years		**(16,199)**	(884)	**(7)**	106
		157,353	132,316	**590**	802

Notes to the Financial Statements

18. OTHER COMPREHENSIVE INCOME

Group	2013 Before tax RM'000	2013 Tax (expense)/ benefit RM'000	2013 Net of tax RM'000	2012 Before tax RM'000	2012 Tax (expense)/ benefit RM'000	2012 Net of tax RM'000
Items that may be reclassified subsequently to profit or loss						
Cash flow hedge						
– (Losses)/Gains arising during the year	**(11,401)**	**2,850**	**(8,551)**	281	(70)	211
– Reclassification adjustments for losses included in profit or loss	**13,210**	**(3,302)**	**9,908**	28,372	(7,093)	21,279
	1,809	**(452)**	**1,357**	28,653	(7,163)	21,490
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	**8,474**	**(2,119)**	**6,355**	(8,340)	2,085	(6,255)
	10,283	**(2,571)**	**7,712**	20,313	(5,078)	15,235

19. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2013 was based on the profit attributable to ordinary shareholders of RM561.7 million (2012: RM505.4 million) and 234.5 million (2012: 234.5 million) ordinary shares outstanding during the year.

20. DIVIDENDS

Dividends recognised by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2013			
Interim 2013 ordinary	**60**	**140,700**	**3 October 2013**
Final 2012 ordinary	**155**	**363,475**	**13 June 2013**
Total amount		**504,175**	
2012			
Interim 2012 ordinary	55	128,975	4 October 2012
Final 2011 ordinary	125	293,125	30 May 2012
Total amount		422,100	

20. DIVIDENDS (CONTINUED)

After the reporting period, the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share	Total amount RM'000
Final 2013 ordinary	**175**	**410,375**

21. OPERATING SEGMENTS

The Group has two operating segments – Food and beverages and Others which include Nutrition and Nestlé Professional.

Performance is measured based on segment operating profit, as included in the internal management reports that are reviewed by the Group's Executive Board, who is the Group's chief operating decision maker. Segment operating profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments that operate within the Group.

Segment assets and liabilities information are not regularly provided to the Executive Board. Hence, no disclosure is made on segment assets and liabilities.

	Food and beverages		Others		Total	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Group						
Segment revenue and results						
Revenue	**3,904,390**	3,740,653	**883,535**	815,770	**4,787,925**	4,556,423
Operating profit	**594,732**	536,236	**145,755**	121,039	**740,487**	657,275
Included in the measure of segment operating profit are:						
Depreciation on property, plant and equipment	**96,131**	89,282	**12,840**	12,319	**108,971**	101,601

Notes to the Financial Statements

21. OPERATING SEGMENTS (CONTINUED)

Reconciliations of reportable segment profit or loss

	Group 2013 RM'000	2012 RM'000
Profit or loss		
Total profit for reportable segments	**740,487**	657,275
Finance costs	**(21,937)**	(20,131)
Finance income	**5,947**	929
Other unallocated expenses	**(5,845)**	(400)
Share of profit/(loss) of an associate not included in reportable segments	**402**	(5)
Consolidated profit before tax	**719,054**	637,668

22. FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

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

(a) Loans and receivables ("L&R");

(b) Other financial liabilities measured at amortised cost ("OL"); and

(c) Derivatives designated as hedging instruments.

	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives designated as hedging instruments RM'000
2013			
Financial assets			
Group			
Trade and other receivables	**519,144**	**510,117**	**9,027**
Cash and cash equivalents	**15,196**	**15,196**	**–**
	534,340	**525,313**	**9,027**
Company			
Trade and other receivables	**488,879**	**488,879**	**–**
Financial liabilities			
Group			
Loans and borrowings	**(99,898)**	**(99,898)**	**–**
Trade and other payables	**(1,022,999)**	**(1,015,525)**	**(7,474)**
	(1,122,897)	**(1,115,423)**	**(7,474)**
Company			
Trade and other payables	**(1,533)**	**(1,533)**	**–**

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives designated as hedging instruments RM'000
2012			
Financial assets			
Group			
Trade and other receivables	413,045	410,800	2,245
Cash and cash equivalents	34,593	34,593	–
	447,638	445,393	2,245
Company			
Trade and other receivables	441,590	441,590	–
Financial liabilities			
Group			
Loans and borrowings	(99,390)	(99,390)	–
Trade and other payables	(872,045)	(868,525)	(3,520)
	(971,435)	(967,915)	(3,520)
Company			
Trade and other payables	(1,497)	(1,497)	–

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
– Designated upon initial recognition	**(11,546)**	(21,769)	**–**	–
Loans and receivables	**5,802**	830	**2,711**	2,758
Financial liabilities measured at amortised cost	**(22,123)**	(20,473)	**–**	33
	(27,867)	(41,412)	**2,711**	2,791

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Group or the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its third party receivables (domestic and foreign). The Group does not foresee any credit risk arises from amounts due from related companies. The Company's exposure to credit risk arises mainly from amounts due from subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Receivables are partially secured either by bank guarantees or traded shares. As at the end of the reporting period, the total collateral assigned to the Group was RM51,887,000 (2012: RM62,866,000).

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses

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

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2013			
Not past due	**153,674**	**–**	**153,674**
Past due 0-30 days	**17,420**	**–**	**17,420**
Past due 31-120 days	**5,694**	**–**	**5,694**
Past due more than 120 days	**4,692**	**(4,117)**	**575**
	181,480	**(4,117)**	**177,363**
2012			
Not past due	154,862	–	154,862
Past due 0-30 days	4,318	–	4,318
Past due 31-120 days	4,200	(1,355)	2,845
Past due more than 120 days	5,175	(2,617)	2,558
	168,555	(3,972)	164,583

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

	Group 2013 RM'000	2012 RM'000
At 1 January	**3,972**	6,365
Impairment loss recognised	**286**	346
Impairment loss reversed	**(141)**	(329)
Impairment loss written off	**–**	(2,410)
At 31 December	**4,117**	3,972

Impairment losses as at the financial year end mainly related to customers that defaulted in payments and their distributorship have been terminated. The Group has taken the necessary steps to recover the outstanding balance through legal actions.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

Although some of the receivables are secured by third party financial guarantees, it is impracticable to estimate the fair values of the guarantees obtained.

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

Amount due from subsidiaries

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

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

Loans and advances are only provided to subsidiaries which are wholly owned by the Company.

Impairment losses

The Company does not specifically monitor the ageing of the advances to the subsidiaries. Impairment losses are provided when there is an indication that the loans and advances to the subsidiaries are not recoverable.

22.5 Liquidity risk

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

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis

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

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2013						
Non-derivative financial liabilities						
Finance lease liabilities	**12,775**	**5.00**	**14,150**	**5,306**	**3,081**	**5,763**
Bank overdraft - unsecured	**2,859**	**7.66**	**2,859**	**2,859**	**–**	**–**
Loan from a related company - unsecured	**84,264**	**3.20 - 3.41**	**90,010**	**2,873**	**87,137**	**–**
Advances from related companies	**78,271**	**3.16 - 3.91**	**78,271**	**78,271**	**–**	**–**
Trade and other payables, excluding derivatives	**937,254**	**–**	**937,254**	**937,254**	**–**	**–**
	1,115,423		**1,122,544**	**1,026,563**	**90,218**	**5,763**
Derivative financial liabilities/(assets)						
Forward exchange contracts (gross settled)						
– Outflow	**610**	**–**	**256,037**	**256,037**	**–**	**–**
– Inflow	**–**	**–**	**(255,427)**	**(255,427)**	**–**	**–**
Commodity futures	**(2,163)**	**–**	**(2,163)**	**(2,163)**	**–**	**–**
	1,113,870		**1,120,991**	**1,025,010**	**90,218**	**5,763**
2012						
Non-derivative financial liabilities						
Finance lease liabilities	15,126	5.00	16,946	4,976	4,849	7,121
Loan from a related company - unsecured	84,264	3.20 - 3.92	89,656	2,696	86,960	–
Trade and other payables, excluding derivatives	868,525	–	868,525	868,525	–	–
	967,915		975,127	876,197	91,809	7,121
Derivative financial liabilities/(assets)						
Forward exchange contracts (gross settled)						
– Outflow	–	–	210,447	210,447	–	–
– Inflow	(1,599)	–	(212,046)	(212,046)	–	–
Commodity futures	2,874	–	2,874	2,874	–	–
	969,190		976,402	877,472	91,809	7,121

The Company's financial liabilities are interest free and payable within one year.

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk

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

22.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group entities. The currencies giving rise to this risk are primarily U.S. Dollar ("USD"), Singapore Dollar ("SGD"), Great Britain Pound ("GBP") and Thai Baht ("THB").

Risk management objectives, policies and processes for managing the risk

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Exposure to foreign currency risk

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

Group	2013 Denominated in USD RM'000	SGD RM'000	GBP RM'000	2012 Denominated in USD RM'000	SGD RM'000	THB* RM'000
Trade receivables	**4,052**	**1,393**	**–**	3,181	1,216	12,617
Trade payables	**(40,003)**	**(8,109)**	**(47,973)**	(68,890)	(3,131)	(4,049)
Intra-group receivables	**137,444**	**–**	**794**	117,272	9,880	–
Intra-group payables	**(55,897)**	**(12,235)**	**(674)**	(24,116)	(12,416)	–
Commodity futures	**547**	**–**	**1,041**	(2,115)	–	–
Exposure in the statement of financial position	**46,143**	**(18,951)**	**(46,812)**	25,332	(4,451)	8,568
Net contracted foreign exchange contracts	**(27,387)**	**–**	**–**	(142,227)	145	82
Net exposure	**18,756**	**(18,951)**	**(46,812)**	(116,895)	(4,306)	8,650

* The Group's exposure to THB is not significant for the financial year ended 31 December 2013.

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2012: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remained constant and ignores any impact of forecasted sales and purchases.

	Group 2013 RM'000	Group 2012 RM'000
USD	**(1,876)**	11,690
SGD	**1,895**	431
GBP	**4,681**	–
THB	**–**	(865)

A 10% (2012: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

22.6.2 Interest rate risk

Interest rate risk comprises interest price risk that results from borrowing at fixed rates and interest cash flow risk that results from borrowings at variable rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group uses the expertise of Nestlé Treasury Center ("NTC"), Asia Pacific based in Singapore for cash management and financing needs.

The Group's objective is to manage its interest rate exposure through the use of interest rate forwards, futures and swaps.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's and of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Fixed rate instruments				
Financial liabilities	**(12,775)**	(15,126)	**–**	–
Floating rate instruments				
Financial assets	**31,435**	15,944	**78,132**	79,276
Financial liabilities	**(165,394)**	(84,264)	**–**	–
	(133,959)	(68,320)	**78,132**	79,276

Interest rate risk sensitivity analysis

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) profit or loss before tax by RM1,340,000 (2012: RM683,000) on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22.6.3 Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of coffee, cocoa and palm oil for the manufacture of the Group's products.

Risk management objectives, policies and processes for managing the risk

Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price. The commodity contracts giving rise to this risk are primarily futures contracts and options.

Palm oil contracts are transacted by regional Commodity Purchasing Competence Center ("CPCC") based in Nestlé Singapore, whilst coffee and cocoa commodity contracts are transacted by CPCC based in Nestlé UK on behalf of the Group in order to obtain better leverage. Following the guidelines set out by the parent company, all commodity contracts are for the purpose of hedging to protect the Group from price fluctuations.

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.7 Hedging activities

Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The forward exchange contracts and commodity futures have the nominal value of RM670,633,000 (2012: RM413,332,000) and RM61,856,000 (2012: RM101,286,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

The following table indicates the periods in which the cash flows associated with the forward exchange contracts and commodity futures are expected to occur and affect profit or loss:

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2013			
Forward exchange contracts	**(610)**	**(610)**	**(610)**
Commodity futures	**2,163**	**2,163**	**2,163**
2012			
Forward exchange contracts	1,599	1,599	1,599
Commodity futures	(2,874)	(2,874)	(2,874)

During the financial year, a loss of RM8,551,000 (2012: gain of RM211,000) was recognised in the other comprehensive income and RM9,908,000 (2012: RM21,279,000) was reclassified from equity to profit or loss. Ineffectiveness gain amounting to RM1,665,000 (2012: RM2,504,000) was recognised in profit or loss during the financial year in respect of the hedge.

22.8 Fair value information

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

It was not practicable to estimate the fair value of the Group's and the Company's investment in unquoted shares due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

Group 2013	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets										
Commodity futures	**2,163**	**–**	**–**	**2,163**	**–**	**–**	**–**	**–**	**2,163**	**2,163**
Forward exchange contracts	**–**	**6,864**	**–**	**6,864**	**–**	**–**	**–**	**–**	**6,864**	**6,864**
Loans to employees	**–**	**–**	**–**	**–**	**–**	**–**	**33,678**	**33,678**	**33,678**	**33,678**
	2,163	**6,864**	**–**	**9,027**	**–**	**–**	**33,678**	**33,678**	**42,705**	**42,705**
Financial liabilities										
Forward exchange contracts	**–**	**(7,474)**	**–**	**(7,474)**	**–**	**–**	**–**	**–**	**(7,474)**	**(7,474)**
Loan from a related company	**–**	**–**	**–**	**–**	**–**	**–**	**(84,264)**	**(84,264)**	**(84,264)**	**(84,264)**
Finance lease liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**(11,990)**	**(11,990)**	**(11,990)**	**(12,775)**
	–	**(7,474)**	**–**	**(7,474)**	**–**	**–**	**(96,254)**	**(96,254)**	**(103,728)**	**(104,513)**

Group 2012	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value* Total RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets							
Forward exchange contracts	–	2,245	–	2,245	–	2,245	2,245
Loans to employees	–	–	–	–	32,503	32,503	32,503
	–	2,245	–	2,245	32,503	34,748	34,748
Financial liabilities							
Commodity futures	(2,874)	–	–	(2,874)	–	(2,874)	(2,874)
Forward exchange contracts	–	(646)	–	(646)	–	(646)	(646)
Loan from a related company	–	–	–	–	(84,264)	(84,264)	(84,264)
Finance lease liabilities	–	–	–	–	(14,038)	(14,038)	(15,126)
	(2,874)	(646)	–	(3,520)	(98,302)	(101,822)	(102,910)

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

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

Level 2 fair value

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

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2012: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.9 Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group currently does not have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

Group	Note	Carrying amounts of financial instruments in the statement of financial position RM'000	Related financial instruments that are not offset RM'000	Net amount RM'000
2013				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	**6,864**	**(6,864)**	**–**
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	**(7,474)**	**6,864**	**(610)**
2012				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	2,245	(646)	1,599
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	(646)	646	–

Notes to the Financial Statements

23. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investors', creditors' and markets' confidence and to sustain future development of the business. There were no changes to the Group's approach to capital management during the financial year.

24. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group 2013 RM'000	Group 2012 RM'000
Less than one year	**23,395**	22,083
Between one and five years	**45,867**	53,985
	69,262	76,068

The Group leases a distribution center and head office under operating leases. The leases typically run for a period of one to six years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

25. CAPITAL AND OTHER COMMITMENTS

	Group 2013 RM'000	Group 2012 RM'000
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	**193,656**	314,828
Contracted but not provided for		
Within one year	**129,178**	53,517
	322,834	368,345

26. RELATED PARTIES

Identity of related parties

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

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

The Group has related party relationship with its holding company, significant investors, subsidiaries and associate, Directors and key management personnel.

26. RELATED PARTIES (CONTINUED)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and of the Company are shown below. The balances related to the below transactions are shown in notes 8, 12 and 14.

		2013		2012	
Group	Note	Amount transacted for the year ended 31 December RM'000	Balance outstanding as at 31 December RM'000	Amount transacted for the year ended 31 December RM'000	Balance outstanding as at 31 December RM'000
Related companies					
Sales of goods and services	a	**(938,829)**	**136,247**	(999,683)	128,361
Purchases of goods and services	a	**490,797**	**(72,614)**	421,775	(37,941)
Royalties		**221,495**	**(14,670)**	202,532	(14,472)
IT shared services		**29,873**	**–**	27,764	–
Finance costs		**3,430**	**(744)**	8,230	(1,187)
Companies in which Director has interest					
Purchases of goods and services	a	**6,326**	**(827)**	6,533	(898)
Company					
Subsidiary					
Finance income	b	**(2,703)**	**253**	(2,786)	219

All of the above outstanding balances are expected to be settled in cash by the related parties.

Note a Sales to and purchases from related companies are based on normal trade terms. Balances outstanding are unsecured.

Note b Loans to subsidiaries are unsecured, subject to interest at 3.16% to 3.91% (2012: 3.16% to 3.86%) per annum and are repayable on demand.

Notes to the Financial Statements

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

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total retained earnings of the Company and its subsidiaries:				
– Realised	**591,159**	508,706	**410,904**	363,643
– Unrealised	**(101,340)**	(86,125)	**–**	–
	489,819	422,581	**410,904**	363,643
Total share of retained earnings of an associate:				
– Realised	**619**	217	**–**	–
Add: Consolidation adjustments	**58,099**	61,858	**–**	–
Total retained earnings	**548,537**	484,656	**410,904**	363,643

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

Statement by Directors

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

In the opinion of the Directors, the financial statements set out on pages 32 to 85 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2013 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 27 on page 86 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

Alois Hofbauer

Marc Seiler

Petaling Jaya, Malaysia
24 February 2014

Statutory Declaration

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

I, **Marc Seiler**, the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 32 to 86 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya on 24 February 2014.

Marc Seiler

Before me:

Faridah Bt. Sulaiman
Commissioner of Oaths (No. B228)

Petaling Jaya, Malaysia

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 32 to 85.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

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

(c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 27 on page 86 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Adrian Lee Lye Wang
Approval Number: 2679/11/15(J)
Chartered Accountant

Petaling Jaya, Malaysia
24 February 2014

Shareholdings Statistics

as at 28 February 2014

Authorised Capital	:	RM300,000,000
Issued and paid-up share capital	:	RM234,500,000
Class of shares	:	Ordinary shares of RM1.00 each
No. of shareholders	:	5,438
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	20,799,200	8.869
Kumpulan Wang Persaraan (Diperbadankan)	7,273,300	3.101

30 LARGEST SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	20,799,200	8.869
Kumpulan Wang Persaraan (Diperbadankan)	7,273,300	3.101
Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,690,810	1.573
Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputera	3,664,300	1.562
Employees Provident Fund Board	1,500,000	0.639
Amanahraya Trustees Berhad - Amanah Saham Malaysia	1,390,200	0.592
Pertubuhan Keselamatan Sosial	1,359,200	0.579
Amanahraya Trustees Berhad - Public Islamic Dividend Fund	1,244,400	0.530
Amanahraya Trustees Berhad - Amanah Saham Wawasan 2020	770,700	0.328
Amanahraya Trustees Berhad - Public Islamic Equity Fund	691,000	0.294
Kwang Teow Sang Sdn Bhd	560,700	0.239
Cartaban Nominees (Asing) Sdn Bhd - RBC Investor Services Bank for Vontobel Fund - Far East Equity	537,500	0.229
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Aberdeen)	487,000	0.207
Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen)	464,000	0.197
Woo Khai Yoon	461,900	0.196
Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	461,400	0.196
Amanahraya Trustees Berhad - Public Islamic Select Enterprises Fund	414,700	0.176

Shareholdings Statistics

as at 28 February 2014

30 LARGEST SHAREHOLDERS (CONTINUED)

Name	Number of shares held	%
Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
Kuok Foundation Berhad	274,200	0.116
Amsec Nominees (Tempatan) Sdn Bhd - Amtrustee Bhd for CIMB Islamic Dali Equity Growth Fund (Ut-CIMB-Dali)	259,200	0.110
Seah Gak San	252,500	0.107
Jarrnazz Sdn Bhd	248,000	0.105
Cartaban Nominees (Tempatan) Sdn Bhd - Exempt An for Eastspring Investments Berhad	208,400	0.088
Amanahraya Trustees Berhad - Public Dividend Select Fund	199,700	0.085
Mohd Nasser Bin Jaafar	194,550	0.082
Maybank Nominees (Tempatan) Sdn Bhd - Etiqa Insurance Berhad (Life Par Fund)	190,500	0.081
Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA Emerging Markets Series	189,300	0.080
DB (Malaysia) Nominee (Asing) Sdn Bhd - SSBT Fund NT6P for Canada Pension Plan Investment Board	172,200	0.073
Tan Seng Kee Sdn Bhd	169,761	0.072

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 – 99	487	8.956	3,692	0.002
100 – 1,000	3,538	65.061	1,957,825	0.835
1,001 – 10,000	1,106	20.338	3,921,576	1.672
10,001 – 100,000	263	4.836	8,125,269	3.465
100,001 – less than 5% of issued shares	42	0.772	29,415,875	12.544
5% and above of issued shares	2	0.037	191,075,763	81.482
Total	**5,438**	**100.000**	**234,500,000**	**100.000**

DIRECTORS' SHAREHOLDINGS

The Company	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
Dato' Frits van Dijk	8,000	0.0034	–	–

Nestlé S.A., the Holding Company				
Dato' Frits van Dijk	300,000	0.0093	–	–
Mr Alois Hofbauer	2,715	0.0001	–	–
Mr Marc Seiler	5,040	0.0002	–	–

List of Properties Held

at 31 December 2013

	Location	Tenure	Age*	Expiry Date	Size (m²)	Description	Net Book Value RM'000
1.	No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	53	Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069	50,342	Factory	16,465
2.	Lot No. 3 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	43	10.6.2070	10,150	Factory	1,929
3.	Lot No. 5 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	40	H.S.(D) 97 H.S.(D) 159 7.11.2072	62,596	Factory	6,358
4.	Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	44	29.1.2070	36,835	Factory & warehouse	11,426
5.	Lot Nos. 691 - 696 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	22	27.6.2049	173,185	Factory	3,054
6.	Lot Nos. 3863 - 3866 and Lot Nos. 687 - 690 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	22	27.6.2049		Factory	
7.	Lot Nos. 3857 - 3862 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	22	27.6.2049	31,941	Factory	1,437
8.	Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	22	19.10.2053	25,460	Factory	336
9.	Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	19	12.10.2054	12,740	Factory	642
10.	Plot 46 Bemban Industrial Park Batu Gajah, Perak	Leasehold	16	7.11.2058	157,500	Vacant land	6,111
11.	Nos. 75 & 76, Jalan Playar 15/1 40200 Shah Alam Selangor	Leasehold	4	8.9.2066	40,602	Factory (under construction)	35,614

* Approximation of age of property in years.

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