

#GoodFoodGoodLife

Corporate Governance &
Financial Report 2014



Nestlé

Good Food, Good Life

Touching Lives



what's Inside

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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 strictly adhere to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct.

The Group’s corporate governance framework is built on the following requirements and guidelines:

- the principles and recommendations of the Malaysian Code on Corporate Governance 2012 (“MCCG”) issued by the Securities Commission Malaysia;
- the corporate governance requirements of the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa”);
- Corporate Governance Guide: Towards Boardroom Excellence, 2nd Edition issued by Bursa; and
- the business principles and values entrenched in the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct.

This Corporate Governance Statement (“Statement”) sets out the manner in which the Group has applied its corporate governance framework, in particular, the principles and recommendations articulated in the MCCG, during the financial year ended 31 December 2014. The Board approved this Statement on 5 March 2015 and believes that it has in all material aspects complied with the principles and recommendations outlined in the MCCG.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Terms of Reference

The Board’s Terms of Reference clearly set out the functions, responsibilities, and processes of the Board. The Terms of Reference seek to ensure that Board members are aware of their roles and duties and also serve as a clear source of reference to all stakeholders. In order to ensure the continuous relevance of the Terms of Reference, the Board conducts periodic review of the Terms of Reference when necessary. The Terms of Reference are available to the public on the Company website: www.nestle.com.my.

1.2 Role and Responsibilities of the Board of Directors

The Board provides guidance and direction with regards to the Group’s risk assessment, strategic planning, succession planning, financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. The Board also provides the leadership necessary to enable the Group’s business objectives to be met within the framework of risk management and internal controls.

The principal responsibilities of the Board are as follows:

- review and adopt a strategic plan for the Group, including address the Group’s business strategies on promoting sustainability;
- oversee the conduct of the Group’s business, and evaluate whether its businesses are being properly managed;
- identify principal business risks faced by the Group and ensure the implementation of appropriate internal controls and mitigating measures to address such risks;
- ensure that all candidates appointed to the Board are of sufficient calibre, including having in place a process to provide for the orderly succession of the members of the Board and diversity (including gender diversity);
- establish Board committees and responsible for all decision making for the committees;
- oversee the development and implementation of an investor relations programme and stakeholder communications policy;
- review 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; and
- deliberate on proposals presented and recommended, including those proposed by its committees.

There is a schedule of key matters reserved for the Board 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 for decision comprise of 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 of 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.

The Board is chaired by an Independent, Non-Executive Director and the Board meets at least four (4) times a year scheduled in every quarter. If required, additional meetings will be scheduled.

To assist in the discharge of its stewardship role, the Board has established Board Committees, namely the Audit Committee, Nomination Committee and Compensation Committee. The Board Committees have the authority to examine specific issues within their respective terms of reference as approved by the Board and report to the Board 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 meetings of the Board. The ultimate responsibility for decision making, however, lies with the Board.

Independence

The Board 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 and providing objective challenges to the Management Team. Details of the Management Team are provided on pages 52 to 55 of the Corporate Report 2014.

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 has specific functions reserved for the Board and those delegated to Management.

The Board also assumes the following functions:

- 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 and providing objective challenges to the Management;
- declaration of dividends and approval of financial statement, including accounting policies of the Group;
- formalising and adopting a set of code of ethics, ensuring its compliance, establishing an appropriate set of corporate disclosure policies and procedures and ensuring a whistleblowing mechanism is in place.

Separation of Powers between the Chairman and Managing Director

There is a clear division of responsibilities between the Chairman and the Managing Director as well as specific parameters in which management decisions are made in order to ensure independence. The detailed explanation in this regard is provided on page 10 of this Corporate Governance Statement.

1.3 Code of Ethics

In discharging its responsibilities, the Board is guided by the code of ethics and principles contained in the following internal policies/guidelines:

- Nestlé Corporate Business Principles;
- Nestlé Code of Business Conduct; and
- Nestlé Management and Leadership Principles.

Corporate Governance Statement

Nestlé Corporate Business Principles

In addition to the Nestlé Code of Business Conduct, all employees are also guided by the Nestlé Corporate Business Principles that cover key issues that underpin compliance, sustainability and corporate social responsibilities known as Creating Shared Value, catered to fit the unique characteristics of the Group. The Nestlé Corporate Business Principles also focus on work place practices and ethics, employee relations and employee human rights. The ten (10) principles, contained in the Nestlé 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).

Nestlé Code of Business Conduct

The Nestlé Code of Business Conduct outlines the conduct and responsibilities of the Board and all employees. The Directors of the Company have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly with the Company or any of its subsidiaries.

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 prohibition on 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, honesty and to place the Group's interests ahead of personal or other interests and guidance on how the Group's employees should behave.

Nestlé Management and Leadership Principles

The Nestlé Management and Leadership Principles describe the culture, values and principles the Group

expects 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 ongoing success requires each Nestlé manager to understand and capitalise its context based on the following principles:

- Lead to win;
- Manage for results;
- Grow talents 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 Corporate Business Principles, the Nestlé Code of Business Conduct, the Nestlé Management and Leadership Principles and other relevant internal documents are made available to employees and Directors and it can also be found on the Company's intranet whilst the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct, 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.

Corporate Compliance

A Compliance Framework Structure

Since 2011, the Group established a Compliance Framework Structure with a two-tier committee structure, namely the Compliance Steering Committee and the Compliance Champions Committee, to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business.

The Compliance Steering Committee comprises of the Managing Director, the Executive Director, Finance & Control, the Executive Director, Technical and Production, the Executive Director, Group Human Resources, the Executive Director, Group Corporate Affairs, the Head of Legal & Secretarial, the Head of Nestlé Malaysia Internal Audit Function, the Country Business Manager, Nestlé Professional and the Market Compliance Officer. The Compliance Steering Committee is responsible for setting the direction of the Compliance Framework and to support the successful execution of the Compliance Programme thereof.

The Compliance Champions Committee is made up of representatives from the various business and function units which are mostly represented by the respective Business Controllers. The respective Compliance Champions are responsible for coordinating the compliance documents review by way of sharing session and carrying out compliance gaps assessment in their respective business and functions units.

B Compliance Programme

Under the Compliance Programme, the Compliance Champions conduct regular compliance documents review and compliance gaps assessment in the respective business and function units involving all employees. These activities are essential towards instilling the compliance culture and awareness. Reports on the status of the Compliance Programme are then collated, analysed and escalated to the Management on a monthly basis for the purpose of close and continuous monitoring by the Management.

C Compliance Committees Meetings

For the financial year ended 31 December 2014, four (4) quarterly meetings of the Compliance Steering Committee were convened whereby the various initiatives and directions under the Compliance Programme were presented by the Market Compliance Officer and further deliberated and endorsed by the Compliance Steering Committee before they were cascaded for the execution by the Compliance Champions Committee.

For the financial year ended 31 December 2014, there were four (4) quarterly meetings convened by the Compliance Champions Committee. The Compliance Champions Committee meetings were chaired by the Market Compliance Officer and, apart from sharing the direction and endorsements of the Compliance Steering Committee, the agenda of the meetings typically involve discussions on refining the Compliance Programme's initiatives and tools, updating the progress of various initiatives under the Compliance Programme and tracking the status of the various plans.

D World Health Organisation ("WHO") Code Compliance Committee

A WHO Code Compliance Committee is also in place to ensure compliance with the International Code of Marketing of Breast Milk Substitutes, the Malaysian Code of Ethics of the Marketing of Infant Foods and Related Products as well as all other applicable laws and regulations in relation to the sales and marketing of infant formula.

For the financial year ended 31 December 2014, there were four (4) quarterly meetings held and chaired by the Managing Director. The WHO Code Ombudsman, the Head of Legal & Secretarial and the Country Business Manager, Nestlé Infant Nutrition are the other members of this Committee.

E Whistleblowing Policy

One of the key provisions in the Nestlé Code of Business Conduct is reporting on illegal or unacceptable behaviour and/or non-compliant conduct. The Board 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. For this purpose, a Non-Compliance Hotline facility (whistleblowing hotline) has been established 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 as illustrated in the diagram overleaf:

Corporate Governance Statement



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 an independent third party. An employee who believes in good faith that it is his or her duty to report suspected misconduct and who discloses such 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. The Group believes that having a whistleblowing policy in place increases investors' confidence in the Group. 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 wrongdoing, 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.

F Business Ethics and Fraud Committee ("BEFC")

A Business Ethics and Fraud Committee is in place to review all complaints and/or allegations lodged via the Non-Compliance Hotline, or any other avenues (e.g. phone, letter, e-mail). This committee, consisting of senior managers of the Company, 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 presented and discussed at the Audit Committee meetings prior to it being presented to the Board.

G 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 reviews 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 2014, 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) specific trainings on PDPA and the Nestlé Global Privacy Policy across the business and function units within the Group. Awareness on PDPA and the Nestlé Group Privacy Policy are also included in the induction trainings for new employees which are conducted on a 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 the Nestlé Global Privacy Policy and not to engage in any conduct that transgresses any privacy laws and policies.

H Competition Law

Ever since the coming into effect of the Competition Act 2010 on 1 January 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 induction trainings for new employees as well as specific trainings for different business and function units which are conducted on a regular basis.

As at 31 December 2014, the Company conducted eight (8) trainings for employees from various business and function units including employees in regional sales offices throughout Malaysia.

I Anti-Corruption

Integrity in doing business is consistently advocated in the Group. Anti-Corruption measures in the form of continuous learning initiatives such as Anti-Corruption e-Learning (“e-Learning”) was launched in 2012. The

objective of the e-Learning is to further strengthen the implementation and adherence to the Nestlé Code of Business Conduct. The e-Learning is rolled-out consistently throughout the year to internal stakeholders across all operating sites of the Group.

Participants of the e-Learning are required to undergo the complete syllabus with specific reference to the principles as contained in the Nestlé Code of Business Conduct. Participation by selected employees was compulsory and recorded for monitoring purposes with written assessment to be completed at the end of the e-Learning session. Anti-Corruption messages will continue to be actively disseminated within the Group in 2015 with plans already in place to increase the total coverage area of all integrity related initiatives.

J 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 1 800 88 3433 for all its products with the objective of effectively attending and responding to consumer complaints and feedback in a timely manner.

K Suppliers and Service Providers

The Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and 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 and the Group’s related companies. These Standards are incorporated into the contracts with the relevant suppliers or service providers. It is made clear in all contracts with suppliers and service providers that breaches relating to any provisions in the Standards may lead to immediate termination of the contract with the affected supplier or service provider.

Corporate Governance Statement

L Sustainability of Business

The Board 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.

Apart from the Nestlé Corporate Business Principles, the Nestlé Code of Business Conduct, 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 Group's corporate sustainability directions and activities are disclosed in this Annual Report, attached as a separate report titled Nestlé in Society Report 2014.

M Accountability and Audit

(i) Financial Reporting

The Board in discharging its fiduciary duties, also ensures that shareholders are presented with a clear, balanced and meaningful assessment of the Group's financial performance and prospect through the audited financial statements and the quarterly announcements of results. The Chairman's Statement and Managing Director's Statement are available on pages 8 to 13 of the Corporate Report 2014.

(ii) Directors' Responsibility Statement

The Directors have also provided assurance that the financial statements prepared for each financial year gives a true and fair view of the state of affairs of the Company and the Group in a transparent manner as at the end of the

financial year and of the results and cash flow of the Group for the financial year as required under the Companies Act 1965.

The Directors' Report for the audited financial statements of the Company and Group is as outlined on pages 36 to 39 of this Corporate Governance & Financial Report 2014. Details of the Company and the Group financial statements for the financial year ended 31 December 2014 are set out at pages 40 to 104 of this Corporate Governance & Financial Report 2014.

(iii) Internal Controls

The establishment of an appropriate control environment and control framework as well as for reviewing its effectiveness, adequacy and integrity is evidence of the Board's overall responsibility for the Group's system of internal control. It is designed to manage the risk of non-achievement of the Group's objectives and provide adequate assurance against the occurrence of any material misstatement or loss.

The Directors' Statement on Risk Management and Internal Control, which provides an overview of the state of internal controls within the Group, is enumerated at pages 19 to 21 of this Corporate Governance & Financial Report 2014.

Access to Information and Advice

The Board 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's responsibilities. Prior to the Board and Board Committee meetings, a formal and structured agenda, together with a set of Board and Board Committee papers, are forwarded to all Directors at least five (5) days prior to the Board and Board Committee meetings, for the Directors to be prepared to deal with matters arising from such meetings and to enable the Board and Board Committees to make decisions.

The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by the Management Team.

Presentations to the Board 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 also prepared and circulated at least five (5) days prior to each meeting to assist Directors in having an understanding of the subject matter.

From time to time, whenever the Board 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 and its Committees to provide the Board with any such relevant information or updates. External advisers may also be invited to attend Board 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 Directors have unrestricted access to information within the Group. There is also a formal procedure approved by the Board for all Directors, whether acting as a full Board 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.

Company Secretary

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 on updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of the Directors, their impact and implication to the Company, including fiduciary duties and responsibilities. The full profile of the Company Secretary is found on pages 48 and 49 of the Corporate Report 2014.

The Company Secretary organises and attends all Board and Board Committee meetings and ensures meetings are properly convened, and 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 to decide.

2. STRENGTHEN THE COMPOSITION OF THE BOARD OF DIRECTORS

The Board 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, whichever is higher, must be Independent. The profile of each Director is set out on pages 44 to 49 of the Corporate Report 2014. The constitution of the Board is well balanced to address any business challenges and to drive the business of the Group to greater heights. The Board 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.

Board Effectiveness Evaluation

At the Board's meeting on 24 February 2014, the Nomination Committee tabled the results of the 2013 Board Effectiveness Evaluation ("BEE"). The assessment considered the contribution and performance of Directors as regards to 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. All assessments and evaluations carried out by the Nomination Committee in the discharge of its functions were properly documented.

The overall results for the Board and Board Committees' self-evaluation were positive and received highly satisfactory advisory ratings across all areas evaluated. The key areas of evaluation, amongst others, were:

- (i) Independence;
- (ii) Mix of skills and experience;
- (iii) Key strength; and
- (iv) Areas of improvements.

Further details of the BEE can be found on page 26 of this Corporate Governance & Financial Report 2014.

Corporate Governance Statement

Diversity

The Board believes that a diverse range of skills and experience is fundamental to good governance and constructive Board. Hence, the Board is committed in ensuring that its composition reflects the diversity in line with Recommendation 2.2 of the MCCG 2012.

The Board also acknowledges that diversity is not limited to gender alone, but encompasses ethnicity/ race, age as well as nationality. With the appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong, the current Board composition comprises of six (6) male Directors and two (2) female Directors. The Board is of the view that the current composition creates positive, value-relevant impact on the Company. While the Board strives to promote diversity, appointments of Directors are still premised on merit and the knowledge and expertise which must be relevant to the Company.

The full analysis of the Board composition and diversity can be found on page 101 of the Nestlé in Society Report 2014.

Nomination Committee

The Nomination Committee was established on 26 August 2010. The Nomination Committee is responsible to make recommendations to the Board regarding the appointment of directors, evaluation of the skills, experience, competencies of the Directors, diversity of the Board's composition and gap assessment. The Nomination Committee consists of three (3) members, whom are all Independent, Non-Executive Directors.

The full report of the Nomination Committee can be found from pages 25 to 28 of this Corporate Governance & Financial Statement Report 2014.

Compensation Committee

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

The full report of the Compensation Committee can be found from pages 29 to 31 of this Corporate Governance & Financial Statement Report 2014.

3. REINFORCE INDEPENDENCE OF THE BOARD OF DIRECTORS

There is a clear division of responsibilities between the Chairman and the Managing Director to promote accountability and facilitate the division of responsibility, such that no one individual has unfettered powers over decision making.

The Chairman

Tan Sri Dato' Seri Syed Anwar Jamalullail has been the Chairman of the Company since 16 April 2009. Prior to his appointment as the Chairman of the Company, he was a Non-Independent, Non-Executive Director, representing Lembaga Tabung Haji and on 5 November 2004 he was re-designated as an Independent, Non-Executive Director, when Lembaga Tabung Haji ceased to be a substantial shareholder of the Company.

As the Chairman, he is responsible for leading and ensuring the adequacy and effectiveness of the Board's performance and governance process, and acts as a facilitator at Board meetings to ensure that contributions by Directors are forthcoming on matters being deliberated. He works closely with the rest of the Board members in forming policy framework and strategies to align the business activities driven by the Management Team.

The Managing Director

Alois Hofbauer has been the Group Managing Director since 22 February 2013. He 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. The Managing Director, supported by the Management Team, implements the Group's policies and decisions as adopted by the Board, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

The Management Team comprises of the following:

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

Board Independence

The Board recognises 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.

The Independent, Non-Executive Directors are essential for protecting the interests of shareholders and can make significant impartial contributions to the Group's decision making process by bringing in quality advice and impartial views.

Currently, the Company does not set term limits for both Executive Directors and Independent, Non-Executive Directors as the Board believes that continued contribution by Directors provides benefit to the Board and the Group as a whole. However, in line with the recommendation in MCCG 2012, the Nomination Committee is reviewing and working towards a finalised policy to be recommended to the Board on the tenure of Independent, Non-Executive Directors of the Company, including the Chairman of the Company.

During the financial year under review, the Board 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 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 intends to retain a Director as Independent beyond the cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at a 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 criterion of independence.

At the forthcoming Annual General Meeting 2015, the Company will seek its shareholders' mandate to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent, Non-Executive Director of the Company. The Nomination Committee has made the necessary assessment and recommended to the Board 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 Dato' Seri Syed Anwar Jamalullail was first appointed as Non-Independent, Non-Executive Director of the Company on 25 February 2002 and later re-designated to Independent, Non-Executive Director on 5 November 2004. Tan Sri Dato' Seri Syed Anwar Jamalullail has served as Chairman of the Board for the last five (5) years since 16 April 2009. At the 30th Annual General Meeting, having served beyond the tenure of nine (9) years a resolution was passed to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent, Non-Executive Director. He has maintained effective checks and balances in the proceedings of the Board and the Board Committees. He has also devoted sufficient time, attention and has been committed to his responsibilities in performing his functions and duties as the Chairman of the Board of Directors, the Audit Committee and the Nomination Committee.

Corporate Governance Statement

Tan Sri Dato' Seri Syed Anwar Jamalullail is a qualified Chartered Accountant from the Malaysian Institute of Accountants and also a Certified Practising Accountant from the Australian Society of Certified Practising Accountants. This proposed resolution is in line with the recommendation under 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 Listing Requirements of Bursa.

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

4. FOSTER COMMITMENT OF DIRECTORS

The Board ordinarily schedules four (4) meetings in a year. The Board and Board Committee meetings are scheduled well in advance, i.e. in the 1st Quarter of the preceding financial year, to facilitate the Directors in planning ahead and to ensure that the dates of the Board and Board Committees meetings are booked in their respective schedules. Additional meetings are convened when urgent and important decisions need to be made in between scheduled meetings.

During the financial year ended 31 December 2014, five (5) Board meetings were held. The details of the Directors' attendances are as follows:

Director	Meeting Attendance
Tan Sri Dato' Seri Syed Anwar Jamalullail	5/5
Dato' Mohd. Rafik Bin Shah Mohamad	5/5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4/5
Tan Sri Datuk Yong Poh Kon	5/5
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	5/5
Dato' Frits van Dijk	4/5
Alois Hofbauer	5/5
Martin Peter Krügel	1/1*

* Only one (1) meeting of the Board was held since the date of his appointment.

Time Commitment

In addition to the scheduled meetings, whenever any direction or decisions are required expeditiously or urgently from the Board, special meetings of the Board are convened by the Company Secretary, after consultation with the Chairman. Decisions of

the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolutions between scheduled and special meetings. In 2014, eight (8) resolutions ranging from administrative to operational issues were approved by Directors via Circular Resolutions.

The agenda for the meetings of the Board are set by the Company Secretary in consultation with the Chairman and the Managing Director. As stated on page 9 of this Corporate Governance & Financial Report 2014, 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 the meetings. The Board has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year.

All pertinent issues discussed at Board 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's policy that Directors devote sufficient time and effort in discharging their responsibilities. This commitment is obtained from the Directors at the time of appointment.

The Board has outlined the proper procedure which needs to be complied by the Directors before accepting any new external Board appointment. 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 Paragraph 15.06 of the Listing Requirements of Bursa allow for a Director to sit on the board 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 is mindful of the importance for its members to undergo continuous training. The Nomination Committee continues to evaluate and determine the training needs of the Directors to ensure continuous trainings and education in order for them to enhance their business acumen and professionalism in discharging their duties to the Group.

In evaluating the training needs of the Directors, the Nomination Committee looks at various aspects of development including industry and regulatory developments and thereafter makes recommendations to the Board. Upon approval by the Board, the Company Secretary will make the necessary arrangements for the Directors to attend the trainings.

In addition, the Company Secretary also receives regular updates on training programmes from various organisations including the regulators. These updates are circulated to the Directors for their consideration.

The Company provides internal briefings to the Directors on key corporate governance developments and salient changes to the Listing Requirements of Bursa, laws and regulations. From time to time, the Directors are provided with hard copies of reading materials pertaining to the latest developments in areas relating to the Directors' roles and responsibilities, and they are encouraged to attend appropriate external trainings on subject matters that aid the Directors in the discharge of their duties as Directors.

The external auditors also continuously brief the Board on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year.

Any Director appointed to the Board is required to complete the Mandatory Accreditation Programme ("MAP"). Martin Peter Krügel, being a new Director, appointed on 1 October 2014, has attended the MAP within the timeframe granted by Bursa. He has also attended a comprehensive induction programme to familiarise himself with the Group.

In compliance with 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 2014, attended the following training programmes:

TRAINING FOCUS	CONFERENCES/SEMINARS and TRAINING PROGRAMMES
STRATEGY/RISK	<ul style="list-style-type: none"> • Market Business Strategy • Business Continuation Plan • Potential Export and Raw Material Sourcing
INTERNAL OPERATION	<ul style="list-style-type: none"> • Branded Customer Experience • Consumer Engagement Center • Winning in Every Store ("WIES") • Distribution Global Positioning Tracking System ("GPS") • Media management • Induction programmes with Business Executive Managers and Country Business Managers • Nestlé Chilli Club, including site visit
COMPLIANCE	<ul style="list-style-type: none"> • Summary of the MCCG 2012 • Mandatory Accreditation Programme ("MAP") • Nominating and Remuneration Committees – What Every Director Should Know • Governance in Action – What Every Director Should Know • Board Leadership and Value Systems – The Tone at the Top • Advocacy Sessions on Corporate Disclosure for Directors of Listed Issuers • Malaysian Institute of Accountants ("MIA") Conference 2014
INDUSTRY	<ul style="list-style-type: none"> • Water supply issue in Selangor which affected the factory operations • Update on compliance meeting on Code of Ethics for Marketing of Infant Nutrition Foods and Related Products

Corporate Governance Statement

TRAINING FOCUS

CONFERENCES/SEMINARS and TRAINING PROGRAMMES

PERFORMANCE MANAGEMENT

- Company performance
- Nestlé Continuous Excellence (“NCE”)
- LEAD PEP 2.1 (Leadership) in partnership with Melbourne Business School
- Breakthrough Program for Senior Executives held in Lausanne (Leadership) by IMD Lausanne

FINANCE/AUDIT

- FTSE4GOOD Audit update
- Reviewing the Risk and Control on the Quality of Financial Statements
- Financing of Capital Expenditure
- Company Financing Structure

OTHERS

- Human Capital Development
- Khazanah Megatrends Forum 2014

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING BY COMPANY

The Board 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. This is done 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 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, their results and cash flow as at the end of the reporting period. The Directors ensure that the financial statements are prepared according to the accounting standards approved by the Malaysian Accounting Standards Board and comply with the provisions of the Companies Act, 1965 and reasonable, 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 the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

The Board 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 on pages 36 to 39 of this Corporate Governance & Financial Report 2014.

To assist in the discharge of its duties on financial reporting, the Board has established an Audit Committee, comprising wholly Independent, Non-Executive Directors, with Tan Sri Dato’ Seri Syed Anwar Jamalullail as its Chairman. The composition of the Audit Committee, including its roles and responsibilities, are set out on pages 22 to 24 of this Corporate Governance & Financial Report 2014. 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’s 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.

An assessment of the objectivity, independence and quality of service delivery of the Group’s external auditors was conducted in February 2014, facilitated by the Nestlé Malaysia Internal Audit Function and no major gaps have been identified.

The assessment is made in accordance with the established policy practised by the Company to assess the suitability and independence of external auditors.

The Audit Committee has obtained the assurance from external auditors confirming their independence.

6. RECOGNISE AND MANAGE RISKS OF THE GROUP

In recognising the importance of risk management and internal controls, the Board has established a structured 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 framework are set out in the Statement on Risk Management and Internal Control included on pages 19 to 21 of this Corporate Governance & Financial Report 2014.

The Board has established internal control policies and procedures. The Board monitors to ensure that these policies and procedures are effectively implemented and carried out by the Management Team. The Group has in place information technology policies that outline the processes to create policies, best practices, standards and the use of the supporting information technologies. The Board is mindful of the legal implications in the event of any breach of laws and regulations relating to the misuse of technology systems or information.

Guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers issued by the Malaysian Institute of Accountants, the Board performs annual reviews in all material aspect on financial, operational and compliance control and risk management systems. The Board is provided with reasonable assurance from various reports submitted by the Management Team and the Audit Committee on risk management and internal control systems. Details on the Statement on Risk Management and Internal Control and Nestlé Malaysia Internal Audit Function are set out on pages 19 to 21 of this Corporate Governance & Financial Report 2014.

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 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 ended 31 December 2014, the corporate disclosure policies and procedures which have been adopted and implemented by 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 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. Based on the foregoing, the Board approved and released the quarterly financial results for the year ended 31 December 2014 on the following dates:

2014 Quarterly Results	Date of Issue/ Release	Bursa Securities Deadline	Number of Days after End of Quarter
1st Quarter	17.04.2014	31.05.2014	17
2nd Quarter	12.08.2014	31.08.2014	43
3rd Quarter	27.10.2014	30.11.2014	27
4th Quarter (including full year results)	23.02.2015	28.02.2015	54

ii) Investors relations

The Company holds separate quarterly briefings for fund managers, institutional investors, investment analysts and the media after its announcement of each quarterly results to Bursa. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to fund managers, investors, shareholders and the media but to also 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.

Corporate Governance Statement

In 2014, the Company held four (4) quarterly briefings. On 16 October 2014, the Company held an investor briefing for the Employees Provident Fund, which is the Company's substantial shareholder.

iii) Company website and authorised spokesperson

In addition to providing comprehensive insights into the Group's financial performance, the Board also recognises the importance of communicating the Group's business strategies, updates on the progress of the current business initiatives and financial performance. Effective 2013, the Company publishes the Quarterly Reports on the Company's corporate website, www.nestle.com.my, where shareholders can access information under the 'Investor Relations' page.

The Board places great importance in maintaining active dialogue and effective communication with shareholders and investors for accountability and transparency to enable shareholders and investors to make informed investment decisions. As part of the Company's commitment towards this objective, experienced members of the Management Team are directly involved in the Company's investor relations activities, including the Executive Director, Finance & Control whose details are as follows:

Name : Martin Peter Krügel
 Designation : Executive Director, Finance & Control
 Age : 47 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. : +603 7965 6107
 E-mail : InvestorRelations.Malaysia@my.nestle.com

Details of his qualification and relevant experience are found in the Profile of Directors on pages 48 to 49 of the Corporate Report 2014.

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

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

8. STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS

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

Annual Report and Shareholder Participation at General Meeting

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

The Board aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to the Company's shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements of Bursa 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 of Bursa, 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 arising from such items. The Annual General Meeting is the principal opportunity for the Board to meet shareholders, for the Chairman to provide an overview of the Group's progress, and to 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, 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. 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 Chairman, 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, if necessary.

The 30th Annual General Meeting was held on 24 April 2014 at Hilton Hotel, Kuala Lumpur.

Communication and Engagement with Shareholders

The Company recognises the importance of being transparent and accountable to its stakeholders. The Company maintains an active and constructive

communication policy that enables the Board and Management to communicate effectively with investors, financial community and the public generally.

The channels of communications include meetings with institutional shareholders and investment communities, quarterly announcements on financial results to Bursa, announcements and circulars, as necessary, the Annual and Extraordinary General Meetings and the Company's corporate website at www.nestle.com.my. Shareholders and prospective investors can access corporate information, annual reports, press releases, financial information, company announcements and share prices of the Company from these channels of communications. 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.

9. ADDITIONAL COMPLIANCE INFORMATION AS AT 31 DECEMBER 2014

1. Related party transactions

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, 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 a transaction at the meeting of the Board, the Annual General Meeting or Extraordinary General Meeting.

The Group has established procedures regarding its related party transactions which are summarised 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;

Corporate Governance Statement

- 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 24 April 2014 (the date of the last Annual General Meeting) to 2 March 2015, are as follows:

- purchases of semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM410 million;
- payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM210 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM30 million;
- sale of food products to Nestlé affiliated companies amounting to approximately RM700 million;
- billing for shared services of approximately RM2 million each for Cereal Partners (Malaysia) Sdn. Bhd., Purina Petcare (Malaysia) Sdn. Bhd. and Wyeth Nutrition (Malaysia) Sdn. Bhd. respectively.

2. Material Contracts

For the financial year ended 31 December 2014, 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.

3. Non-audit Fees

The amount of non-audit fees incurred for services rendered by the external auditors, KPMG to the Group during the financial year ended 31 December 2014 is as follows:

Activities	Amount (RM)
Includes regulatory updates reporting, trainings and internal compliance audit	172,000.00

4. Profit Guarantee

The Company did not make any profit guarantee during the financial year ended 31 December 2014.

5. Material Litigation

The Company did not have any material litigation during the financial year ending 31 December 2014.

10. COMPLIANCE STATEMENT BY THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE STATEMENT

The Board has deliberated, reviewed and approved this Statement. Pursuant to Paragraph 15.25 of the Listing Requirements of Bursa, the Board is pleased to report that the Board is satisfied that to the best of its knowledge the Company has fulfilled its obligations under the Nestlé Code of Business Principles, the Nestlé Code of Business Conduct, MCGG 2012, the relevant chapters of the Listing Requirements of Bursa on corporate governance and all applicable laws and regulations throughout the financial year ended 31 December 2014. This Statement was presented and approved at the meeting of the Board on 5 March 2015.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors of the Company (“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 2014.

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 and Internal Control: Guidelines for Directors of Listed Issuers.

BOARD OF DIRECTORS RESPONSIBILITY

The Board 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 recognises that a sound system of risk management and internal control is an integral part of good corporate governance. The Board and the Management Team are responsible and accountable for the establishment of internal controls for the Group. The Board has an ongoing process for identifying, evaluating and managing significant risks faced by the Group. The Board 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 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.

RISK MANAGEMENT FRAMEWORK

The Board 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 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 through the Audit Committee to ensure their continuing relevance and compliance with current/applicable laws and regulations.

Statement on Risk Management and Internal Control

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 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
- 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 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. 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 financial year ended 31 December 2014, the Nestlé Malaysia Internal Audit Department conducted ten (10) internal audits across corporate functions, warehouse and business units. In addition, four (4) 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 Group wide Risk Assessment Methodology. The annual internal audit plan and results of the Nestlé S.A. Audit Department are regularly reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. For the financial year ended 31 December 2014, based on the approved annual audit plan and the risk assessment, no audits were performed on the Group by the Nestlé S.A. Audit Department.

The annual audit plan for the financial year ended 31 December 2014 was presented and reviewed by the Audit Committee and approved by the Board in the last quarter of year 2013. The annual audit plan for the financial year 2015 was presented and reviewed by the Audit Committee and approved by the Board in the last quarter of year 2014.

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 Corporate 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. 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 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. In addition to the above, the Group leverages the Nestlé Internal Control Self-Assessment Tool (“ICSAT”) for all business units and corporate functions, which were rolled out in 2008. ICSAT, 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 through the Audit Committee, as well as to Nestlé S.A. by the Nestlé S.A. Audit Department. ICSAT also acts as a repository for best in class internal controls which may be shared with other Nestlé units across the world.

For the financial year ended 31 December 2014, based on the completed ICSAT 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 Executive Director, Finance & Control.

A Business Ethics and Fraud Committee is in place to review all complaints/allegations lodged via the Non-Compliance Hotline or any other avenues (e.g. phone, letter, e-mail) as described on pages 5 and 6 of this Corporate Governance & Financial Statement 2014. 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 has received assurance from the Managing Director and Executive Director, Finance & Control that the Group’s risk management & 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 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 financial year ended 31 December 2014 and reported to the Board 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 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

MEMBERS

Tan Sri Dato' Seri Syed Anwar Jamalullail

Independent, Non-Executive Director

Chairman

(Member of the Australian Society of Certified Practising Accountants (CPA);

Member of the Malaysian Institute of Accountants)

Dato' Mohd. Rafik Bin Shah Mohamad

Independent, Non-Executive Director

Member

(Fellow of the Association of Chartered Certified Accountants, United Kingdom;

Member 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 ("Board") 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 in the discharge of its responsibilities for corporate governance, internal controls and financial reporting. The Audit Committee acts on behalf of the Board to ensure that:

1. The financial statements of the Group complies with the applicable financial reporting standards;
2. The internal audit function is operating effectively and in accordance with the Standards for the Professional Practice of Internal Auditing;
3. Adequate attention is paid to the effectiveness, efficiency and economy of the Group's operations;
4. The quarterly results and year-end financial statements are reviewed prior to the approval by the Board;
5. Adequate systems of governance, risk management and internal control are in operation so as to produce accurate and meaningful management information;
6. 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;
7. Appropriate and timely action is taken by the relevant managers to rectify the major areas of concern; and
8. Assess any major litigation, claims and/or issues with substantial financial impact (if any).

The Audit Committee reports to the Board 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;
- review any conflict of interest situations and related party transactions; and
- rely on Nestlé's Group Audit for Information System/ Information Technology ("IS/IT") related internal control risks.

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.

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 the Board to approve the financial statements), receiving explanations for significant variations from the prior year and from budget, and referring issues to the Board, 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 such as possible material litigation, claims or issues with substantial financial impact; 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 the Management Team and employees of the Group at any reasonable time;

- draw assistance from qualified external party to advise on issues, where the members require expert input;
- meets with the external auditors twice a year without the presence of the Management Team; and
- convene meetings with external auditors, the internal auditors or both, without the presence of the Management Team, 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 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 five (5) meetings (including a Special Meeting) for the financial year ended 31 December 2014 and the attendance of members was as follows:

No. Audit Committee Members		Meeting Attendance
1.	Tan Sri Dato' Seri Syed Anwar Jamalullail	5/5
2.	Dato' Mohd. Rafik Bin Shah Mohamad	5/5
3.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	5/5

Upon invitation by the Audit Committee, the Executive Director, Finance & Control, representatives of the external auditors, the Head of 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.

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

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 Team in their absence; and
- review and evaluate factors relating to the independence of the external auditors and recommend the re-appointment of the Group's external auditors.

Audit Committee Report

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. The Audit Committee also ensured that the external auditors met the criteria provided by Paragraph 15.21 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements");

In line with the 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 2014, the Company spent approximately RM172,000 on Non-Audit Fees representing 24.7% of the total fees to external auditors.

- review of the unaudited financial results announcements before recommending them for Board's approval.

Other activities:

- discuss with the external auditors any problems/issues arising from the final audit (in the absence of the Management);
- review of related party transactions and conflict of interest situations, ordinary and extraordinary dividend payments;
- review of the Statement of Internal Control and Risk Management in compliance with the Listing Requirements and the Malaysian Code on Corporate Governance 2012 ("MCCG 2012");
- presentation on Nestlé's Code of Business Conduct and the Company's Whistleblowing System/ Non-Compliance Hotline;
- review of major litigation, claims and/or issues with substantial financial impact (if any);
- review and approve the revised Audit Charter of the Nestlé Malaysia Internal Audit Department;
- conducted an Audit Committee self-assessment whereby the result was highly satisfactory;
- review of agenda for 2015; and
- review the assistance given by employees to the external auditors.

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 and Control function in the Group but 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 19 to 21 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, 45 years of age, who has served within the worldwide Nestlé group of Companies for approximately 19 years. She was previously attached to the Finance & Control Division of Nestlé Romania. Anca Vetisan is a graduate of the Technical University in Romania, with a Bachelors Degree in Engineering and a Certified Internal Auditor by the Institute of Internal Auditors ("IIA").

The costs incurred for the internal audit function for the financial year ended 31 December 2014 is MYR1,374,000.

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;
- review the current status of complaints received via the Non-Compliance Hotline; and
- review and take cognisance of the movements of internal audit staff members.

Activities with regards to financial statements:

- review of annual report and the audited financial statements of the Company prior to submission to the Board 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 Listing Requirements, MASB and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements; and

NOMINATION COMMITTEE REPORT

MEMBERS

Tan Sri Dato' Seri Syed Anwar Jamalullail

Independent, Non-Executive Director
Chairman

Tan Sri Datuk Yong Poh Kon

Independent, Non-Executive Director
Member

Dato' Frits van Dijk

Independent, Non-Executive Director
Member

A TERMS OF REFERENCE

The Nomination Committee was formed by the Board of Directors ("Board") and the principal responsibilities of the Nomination Committee are as follows:

1. Review the size, structure, balance and composition of the Board and the Board Committees;
2. Evaluate the required mix of skills, experience, core competencies, diversity of the Board, the Board Committees and the contribution and performance of the individual Directors for the effective and efficient functioning of the Board and the Board Committees;
3. Undertake gap assessment and develop improvement programme based on the review and evaluation of the Board, Board Committees and individual Directors;
4. Review the independence of Directors including where appropriate, criteria on assessing the independence of candidates' appointment as Independent, Non-Executive Directors and time commitment of each Independent Director;
5. Review the succession plans, policy on Board composition and board diversity (including gender, ethnicity and age diversity) and review the management development and succession plans for the Management Team of the Company;
6. Establish a suitable process to identify, recommend and nominate suitably qualified candidates for the Board 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;
7. Review the retirement of Directors by rotation for re-election, the Directors eligible for re-election, the re-appointment of Directors of or over the age of 70 years and the retention of Directors who have

served beyond nine (9) years as Independent Directors, and to assess their eligibility for re-election, re-appointment or retention prior to recommending to the Board the candidates for re-election, re-appointment or retention; and

8. Ensure new Directors go through a proper induction programme, to review the trainings attended by the Directors and to continuously evaluate the training needs for individual Directors.

B THE PROCESS OF THE COMMITTEE

The Nomination Committee should be chaired by the Chairman of the Board, and the Chairman is responsible for the conduct of meetings. Regular meetings are fixed in a 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 employee 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.

In appointing the appropriate individual to the Board, the Nomination Committee shall first consider and recommend to the Board the suitable candidate for directorship taking into consideration and upon the evaluation of the candidate's skills, knowledge, competencies, expertise and experience, time commitment, professionalism, integrity and diversity. The Nomination Committee shall prepare a description of the role and capabilities required for a particular appointment before a recommendation is made to the Board.

Nomination Committee Report

Upon appointment to the Board, 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 and Board Committee meetings.

Before any Director accepts any new external Board appointment, the Director shall first ensure sufficient time commitment to the Company and write to the Company Secretary who will then bring the matter to the attention of the Chairman. The Chairman will then discuss with the Managing Director on the acceptance of the appointment. If there is a potential conflict in the appointments, it will be tabled at the Nomination Committee.

Directors seeking re-election, re-appointment and retention would abstain from all deliberations regarding his/her re-election, re-appointment and retention.

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

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

C STATEMENT ON ACTIVITIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

In 2014, the Nomination Committee met three (3) times and the attendance of members was as follows:

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

The Nomination Committee had reviewed and discussed the results of the Board Effectiveness Evaluation ("BEE") presented and the evaluation that was made in respect of the Board's responsibilities, composition, administration and processes, conduct, interaction and communication with the Management Team and stakeholders as well as the Chairman. The Board, the Board Committees and the

individual Directors were also evaluated during the exercise. Overall, the scores received were highly satisfactory and there were no major concerns.

The Chairman of the Nomination Committee had discussed the results of the BEE with each of the individual Directors. The Nomination Committee undertook gap assessment to identify the strengths and areas for improvement to further strengthen the Board and the Board Committees. The Board improvement programme based on the results of the BEE would be carried out in 2015.

The Nomination Committee had also deliberated, reviewed and considered the size, structure and composition of the Board and the Board Committees, including the required mix of skills and experience, core competencies of the Directors for the effective and efficient functioning of the Board and the Board Committees and evaluated the effectiveness of each Director, Board Committee and Board as a whole. The Nomination Committee was of the view that the current size, structure and composition facilitated good discussions and encouraged contributions and participations from all the Directors. The Nomination Committee had recommended to the Board for the Board composition to be maintained, with the desire to achieve a balance between continuity and renewal. The composition of the Board was further strengthened with new skill sets with the appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong to the Board in November 2013. The diversity of the current Board composition and employees based on gender, age and ethnicity was also discussed to ensure a balanced representation in the Company.

A separate independence assessment was carried out by the Nomination Committee by way of Director's self and peer evaluation in order to ensure that Independent Directors are able to continue to bring independent and objective judgment to the Board. The Nomination Committee also conducted a review on the competencies and time commitment of the directors. It was acknowledged that the Directors do have the competencies to serve as members of the Board.

The Board succession plan is aligned with the requirements of Nestlé S.A. as the major shareholder of the Company. The Nomination Committee discussed the limit and the length of chairmanship and directorship of the Directors in line with the Malaysia Code on Corporate Governance ("MCCG") 2012 and the applicable policy of Nestlé S.A.

The Nomination Committee took cognisance of the importance of effective human capital development, talent retention and succession planning for key management positions in the Company to ensure business continuity.

In 2014, the appointment of Alois Hofbauer as a member the Compensation Committee, the resignation of Marc Seiler following his move to another market within the Nestlé Group and the appointment of Martin Peter Krügel, formerly Head of Finance & Control of Nestlé Nigeria Plc as the new Executive Director, Finance & Control of the Company were tabled at the Nomination Committee meeting.

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.

Following the review undertaken by the Nomination Committee in respect of induction and trainings for directors, it was acknowledged that the Directors do have the competencies to serve as members of the Board, but additional customised trainings are important to areas relevant to the Company's business and the challenges faced by the Company in the fast moving consumer goods industry. The Company Secretary will identify and inform the Board of relevant trainings for attendance by the Directors.

The description of trainings attended by the Directors is found on pages 13 and 14 of this Corporate Governance & Financial Report 2014.

The Nomination Committee continuously reviews its Terms of Reference and has discussed and planned the Nomination Committee Agenda for the following year in advance.

Directors' Retirement and Re-election

The Nomination Committee had deliberated and proposed to the Board its recommendations on the re-election, re-appointment and retention of the relevant Directors that shall be tabled for shareholders' approval at the forthcoming Annual General Meeting.

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 Company's re-election process accords with Articles 90.1 and 90.2 of the Company's Articles of Association ("Articles"), which state that one-third (1/3) 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 the longest in office since their last election.

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.

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

Director	Designation	Relevant Provisions
(a) Dato' Mohd. Rafik Bin Shah Mohamad	Independent, Non-Executive Director	Re-election under Article 90.1
(b) Tan Sri Datuk Yong Poh Kon	Independent, Non-Executive Director	Re-election under Article 90.1
(c) Martin Peter Krügel	Executive Director	Re-election under Article 97
(d) Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	Independent, Non-Executive Director	Re-appointment under Section 129 of the Companies Act 1965
(e) Tan Sri Dato' Seri Syed Anwar Jamalullail	Independent, Non-Executive Director	Retention under Recommendation 3.2 of the MCGG 2012

Nomination Committee Report

(a) Re-election of Dato' Mohd. Rafik Bin Shah Mohamad pursuant to Article 90.1 of the Company's Articles of Association

The recommendation to re-elect Dato' Mohd. Rafik Bin Shah Mohamad is supported by his vast experience as the former Executive Director, Finance & Control of the Company and his in depth knowledge of the Company's business operations. His background as a professional accountant is a valuable asset to the Company with regards to its financial management.

(b) Re-election of Tan Sri Datuk Yong Poh Kon pursuant to Article 90.1 of the Company's Articles of Association

The recommendation to re-elect Tan Sri Datuk Yong Poh Kon is supported by his contributions to the Board and the Company's business operations in the last three (3) years through his vast knowledge, experience and expertise as a businessman particularly in relation to manufacturing and export activities.

(c) Re-election of Martin Peter Krügel pursuant to Article 97 of the Company's Articles of Association

The recommendation for the re-election of Martin Peter Krügel is supported by his current position as the Executive Director, Finance & Control of the Company replacing Marc Seiler, who has been transferred to another market. His in depth knowledge of the Group's business operations from various markets is an asset to steering the Company in the right direction through meticulous financial planning and risk management.

(d) Re-appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong pursuant to Section 129 of the Companies Act 1965

The recommendation for the re-appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong is supported by her medical qualification which is vital to the Company as it aims to position itself as the leading nutrition, health and wellness company in Malaysia. Her active involvement in non-governmental and charity organisations contribute greatly to the Company's corporate social responsibility (known as creating shared value) activities through her experience and engagements with the aforementioned organisations.

(e) Retention of Tan Sri Dato' Seri Syed Anwar Jamalullail pursuant Recommendation 3.3 of the MCGG 2012

Tan Sri Dato' Seri Syed Anwar Jamalullail was first appointed as Non-Independent, Non-Executive Director of the Company on 25 February 2002 and later re-designated as Independent, Non-Executive Director on 5 November 2004. On 16 April 2009, he was appointed as the Chairman of the Board of the Directors. At the 30th Annual General Meeting, a resolution was passed to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent, Non-Executive Director.

The recommendation to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent, Non-Executive Director of the Board and Chairman of the Audit Committee was made subsequent to an assessment by the Nomination Committee pursuant to Recommendation 3.2 of the MCGG 2012. The recommendation is based on his ability to understand the businesses and the challenges of the Company, the environment in which the Company operates in and his contribution to the development of strategies and direction of the Company. He has maintained effective checks and balance in the proceedings of the Board and the Board Committees. He has also devoted sufficient time, attention and has been committed to his responsibilities in performing his functions and duties as the Chairman of the Board, the Audit Committee and the Nomination Committee.

Tan Sri Dato' Seri Syed Anwar Jamalullail is a qualified Chartered Accountant from the Malaysian Institute of Accountants and also a Certified Practising Accountant from the Australian Society of Certified Practising Accountants.

All of the above Directors have complied with the various statutory provisions and other regulatory matters and were recommended for re-election/re-appointment/retention by the Nomination Committee and was subsequently approved by the Board pursuant to the respective Articles and Sections. Directors seeking re-election, re-appointment and retention have abstained from all deliberations regarding his or her re-election, re-appointment and retention.

Information of each Director standing for re-election/re-appointment/retention is set out at pages 44 to 49 of the Corporate Report 2014.

COMPENSATION COMMITTEE REPORT

MEMBERS

Dato' Mohd. Rafik Bin Shah Mohamad
Independent, Non-Executive Director
Chairman

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

Dato' Frits van Dijk
Independent, Non-Executive Director
Member

Alois Hofbauer
Executive Director
Member
(Appointed with effect from 24 February 2014)

A TERMS OF REFERENCE

The Compensation Committee was formed by the Board of Directors ("Board") and the principal responsibilities of the Compensation Committee are as follows:

1. Ensure that the remuneration package of the Board and the employees of the Group are benchmarked against industry standards in light of the Group's performance in the industry and to ensure market competitiveness;
2. Determine the Group's remuneration philosophy and principles to ensure that these are in line with the business strategy, objectives, values and long term interests of the Group and comply with all regulatory requirements;
3. Review the Group's remuneration practices in relation to the risk environment and ensure that remuneration does not encourage excessive risk-taking and is determined within the Group's risk management and control framework taking into account the long-term interests of shareholders, fund investors and other stakeholders;
4. Review and approve the Management's proposal for the salary increase package recommended by the Group Human Resource Department for subsequent approval by the Board;
5. Review the report on the compensation package disclosed in the Annual Report each year in line with applicable statutory and regulatory disclosure requirements;
6. Review the Company's employees turnover by category; and

7. Retain or obtain the advice of external advisors, including compensation consultants, as it deems appropriate, and shall be directly responsible for the appointment, termination, compensation and oversight of the work of any external advisors retained by the Committee.

B THE PROCESS OF THE COMMITTEE

The Committee should be chaired by an Independent Director appointed by the Board amongst its members. The Chairman of the Committee is responsible for the conduct of the Committee's meetings. Regular meetings are fixed in a 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 employee 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.

The Committee reviews once in every three (3) years the remuneration package of the Non-Executive Directors and makes its recommendation to the Board. The Committee also reviews and recommends to the Board on an annual basis, the remuneration package for the Group's employees. To ensure the competitiveness of the Group's remuneration package, a benchmarking exercise against companies within the same industry is carried out.

Compensation Committee Report

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. If necessary, an external service provider with the necessary expertise is engaged to carry out the Board remuneration review and thereafter the Committee makes a recommendation to the Board.

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

For the remuneration package of Executive Directors and the Management Team, the Committee is guided by the compensation framework developed by Nestlé S.A., which is the major shareholder of the Company. The remuneration package contains both fixed and performance-linked elements. These two (2) elements vary depending on the level of responsibility and complexity of the role. The Executive Directors and the Management Team are paid salaries, allowances, bonuses and other benefits given in accordance with the Corporate Expatriation Policy. The performances of the Executive Directors are reviewed annually by Nestlé S.A. and adjustments to their remuneration are made based on their performance and contributions in the preceding year.

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

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

C STATEMENT ON ACTIVITIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

In 2014, the Compensation Committee met twice. The attendance of members was 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
4.	Alois Hofbauer	1/1*

* Only one (1) meeting of the Compensation Committee was held since his appointment.

The Board Remuneration Review is undertaken once in every three (3) years and the last Board Remuneration Review was done in 2013. The new directors' fees were approved by the shareholders at the 30th Annual General Meeting.

The Compensation Committee deliberated on the Company's remuneration direction for its employees and the basis of the market survey methodology to ensure that the total remuneration package under the talent retention plan is competitive. The recommendations by the Compensation Committee were presented to the Board for its approval.

The annualised employees turnover rate by category and in comparison with the market turnover trend was also presented and reviewed by the Compensation Committee.

The Compensation Committee was also informed of the Executive Directors and the Management Team's remuneration package which is in accordance with the compensation framework of Nestlé S.A. This is to ensure that they are fairly rewarded for their individual contributions to the Company's overall performance and commensurate with their level of executive responsibilities.

Directors' remuneration paid in the financial year ended 31 December 2014 in aggregate, with categorisation into appropriate components, distinguishing between Executive and Non-Executive Directors which has been reviewed is as follows:

2014	Executive Directors*	Non-Executive Directors*
(MYR, in Gross) **		
Salaries	1,617,066	–
Directors Fees ***	–	737,452
Emoluments ****	1,562,467	98,824
Benefits *****	2,001,357	–
TOTAL	5,180,890	836,276

** Includes a Director who resigned in 2014.

** Numbers are provided before tax.

*** Fees paid to Non-Executive Directors.

**** Other emoluments include bonuses, incentives, retirement benefits, provisions 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*	Non-Executive Directors*
(MYR, in Gross)		
1 – 50,000	–	1
50,001 – 100,000	–	1
100,001 – 150,000	–	3
350,001 – 400,000	1	1
1,900,001 – 1,950,000	1	–
2,850,001 – 2,900,000	1	–
TOTAL	3	6

* Includes a Director who resigned in 2014.

FINANCIAL CALENDAR

Results

Interim	– announced	– 12 August 2014
Final	– announced	– 23 February 2015

Dividends

Interim	– record date	– 3 September 2014
	– paid	– 24 September 2014
Final	– record date	– 13 May 2015
	– payable	– 27 May 2015

Annual General Meeting	– 23 April 2015
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SHARE PERFORMANCE

	Calendar Year				
	2014	2013	2012	2011	2010
During the year					
Highest – RM	69.48	69.50	70.20	57.00	45.00
Lowest – RM	63.50	58.10	51.50	43.34	33.00

Share Prices (Bursa Malaysia) – Close



GROUP FINANCIAL HIGHLIGHTS

		2014	2013	+ / (-)
Turnover	(RM'000)	4,808,933	4,787,925	0.4%
Earnings/Cash Flow				
Profit before tax	(RM'000)	701,187	719,054	-2.5%
% of turnover		14.6%	15.0%	
Profit after tax and minority interest	(RM'000)	550,384	561,701	-2.0%
% of turnover		11.4%	11.7%	
Dividends paid and proposed (net)	(RM'000)	551,075	551,075	
Depreciation of fixed assets	(RM'000)	112,210	108,971	
Cash flow (net profit + depreciation + amortisation)	(RM'000)	662,594	670,672	
Capital expenditure	(RM'000)	361,008	212,217	
Shareholders' funds	(RM'000)	777,137	816,444	
Personnel	(no.)	5,905	5,976	
Factories	(no.)	7	7	
Per Share				
Market price ¹	(RM)	68.50	68.00	
Earnings ²	(sen)	234.71	239.53	
Price earnings ratio		29.18	28.39	
Dividend (net)	(sen)	235.00	235.00	
Dividend yield	(%)	3.4	3.5	
Dividend cover ²	(no.)	1.0	1.0	
Shareholders' funds	(RM)	3.31	3.48	
Net tangible assets ³	(RM)	3.05	3.22	

Notes:

¹ The market price represents last done price of the shares quoted on the last trading day of December.

² Earnings per share and dividend cover are based on profit after tax.

³ Net tangible assets consists of issued share capital plus reserves less intangible assets.

5 YEARS' STATISTICS

for the year ended 31 December

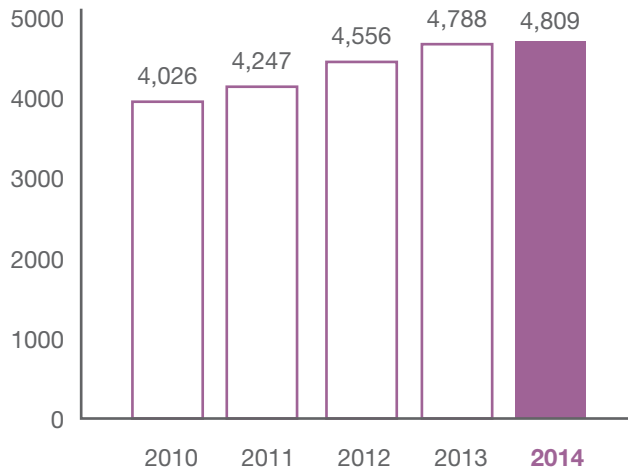
	2014 RM'000	2013 RM'000	2012 RM'000	2011 RM'000	2010 RM'000
Turnover	4,808,933	4,787,925	4,556,423	4,246,744	4,026,319
Earnings/Cash Flow					
Profit before tax	701,187	719,054	637,668	558,809	465,744
% of turnover	14.6%	15.0%	14.0%	13.2%	11.6%
Profit after tax and minority interest	550,384	561,701	505,352	427,128	391,398
% of turnover	11.4%	11.7%	11.1%	10.1%	9.7%
Dividends paid & proposed (net)	551,075	551,075	492,450	422,100	386,925
Depreciation of fixed assets	112,210	108,971	101,601	101,894	101,112
Cash flow (net profit + depreciation + amortisation)	662,594	670,672	606,953	528,871	492,510
% of turnover	13.8%	14.0%	13.3%	12.5%	12.2%
Capital expenditure	361,008	212,217	158,442	93,015	143,915
Employment of Assets					
Fixed assets (net)	1,293,757	1,046,463	945,812	889,741	897,505
Associated company	3,631	3,619	3,217	3,210	3,189
Intangible assets	61,024	61,024	61,024	61,024	61,024
Deferred tax assets	27,958	25,775	32,412	18,460	10,441
Receivables, deposits & prepayments	23,576	21,866	22,001	23,802	22,653
Net current (liabilities)/assets	(412,734)	(141,875)	(88,689)	100,324	62,954
Total	997,212	1,016,872	975,777	1,096,561	1,057,766
Financed by					
Share capital	234,500	234,500	234,500	234,500	234,500
Reserves	542,637	581,944	516,706	418,219	378,836
Total shareholders' funds	777,137	816,444	751,206	652,719	613,336
Deferred tax liabilities	67,522	82,748	74,858	63,815	75,595
Retirement benefit liabilities	62,486	25,337	54,546	42,316	42,537
Borrowings	90,067	92,343	95,167	337,711	326,298
Total	997,212	1,016,872	975,777	1,096,561	1,057,766
Per Share					
Market price ¹	(RM)	68.50	68.00	62.84	56.20
Earnings ²	(sen)	234.71	239.53	215.50	182.14
Price earnings ratio		29.18	28.39	29.16	30.86
Dividend (net)	(sen)	235.00	235.00	210.00	180.00
Dividend yield	(%)	3.4	3.5	3.3	3.2
Dividend cover ²	(no.)	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	3.31	3.48	3.20	2.78
Net tangible assets ³	(RM)	3.05	3.22	2.94	2.52
Personnel	(no.)	5,905	5,976	6,071	5,731
Factories	(no.)	7	7	7	7

Notes:

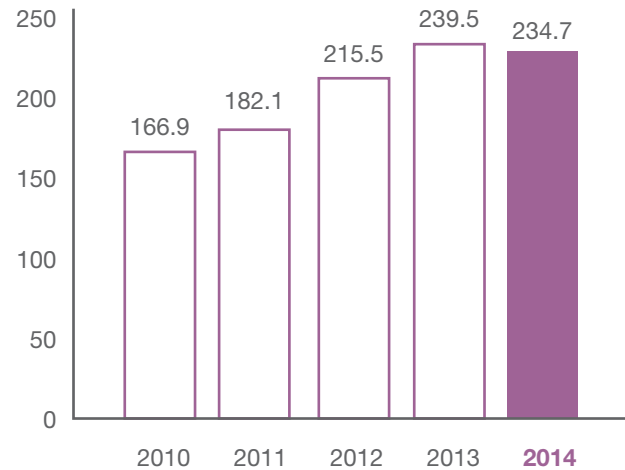
- ¹ The market price represents last done price of the shares quoted on the last trading day of December.
- ² Earnings per share and dividend cover are based on profit after tax.
- ³ Net tangible assets consists of issued share capital plus reserves less intangible assets.

FINANCIAL PERFORMANCE

Turnover
(RM million)



Earnings Per Share
(sen)

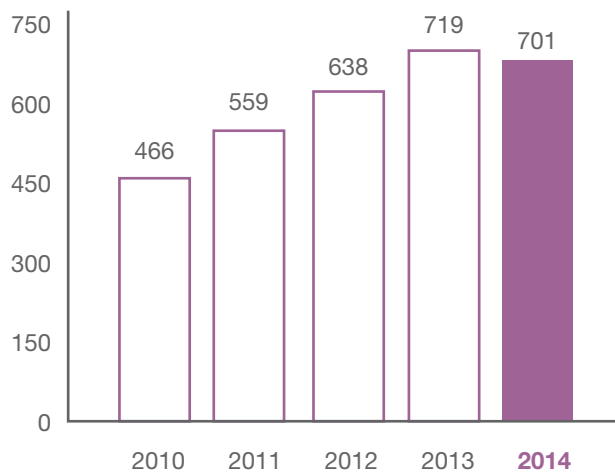


Notes:

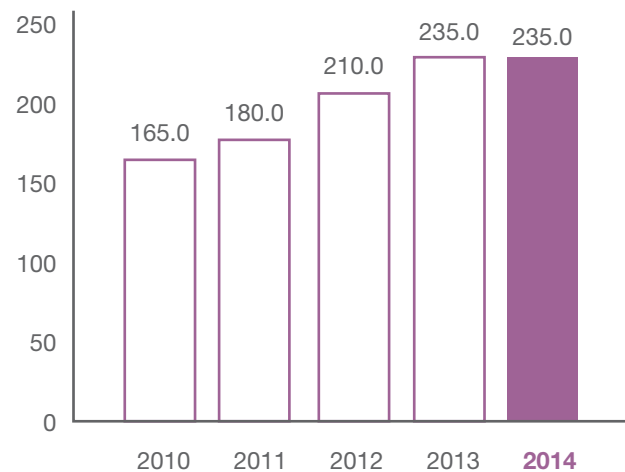
As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applies by consumer goods companies.

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

Pre-Tax Profit
(RM million)



Net Dividend Per Share
(sen)



DIRECTORS' REPORT

for the year ended 31 December 2014

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 2014.

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	550,384	551,305

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 175 sen per ordinary share, totalling RM410,375,000 in respect of the financial year ended 31 December 2013 on 5 June 2014; and
- ii) an interim dividend of 60 sen per ordinary share, totalling RM140,700,000 in respect of the financial year ended 31 December 2014 on 24 September 2014.

The final dividend recommended by the Directors in respect of the financial year ended 31 December 2014 is 175 sen per ordinary share, totalling RM410,375,000.

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 (resigned on 24 February 2014)
Dato' Mohd. Rafik bin Shah Mohamad	
Mr Alois Hofbauer	Mr Martin Peter Krügel (appointed on 1 October 2014)
	Mr Marc Seiler (resigned on 1 October 2014)
Mr Marc Seiler (resigned on 1 October 2014)	Mr Alois Hofbauer (ceased on 1 October 2014)
Mr Martin Peter Krügel (appointed on 1 October 2014)	Mr Alois Hofbauer (appointed on 1 October 2014)
Tan Sri Datuk (Dr.) Rafiah binti Salim	
Tan Sri Datuk Yong Poh Kon	
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	

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 1.1.2014	Acquired	Sold	At 31.12.2014
<i>Shareholdings in which Directors have direct interest</i>				
Interests in the Company				
Dato' Frits van Dijk	8,000	–	–	8,000

	Number of ordinary shares of CHF0.1 each			
	At 1.1.2014	Acquired	Sold	At 31.12.2014
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	300,000	–	(60,000)	240,000
Mr Alois Hofbauer	2,715	1,840	–	4,555
Mr Martin Peter Krügel	490	660	–	1,150

None of the other Directors holding office at 31 December 2014 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 2014

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 Performance 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.

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.

OTHER STATUTORY INFORMATION (CONTINUED)

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 2014 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

Martin Peter Krügel

Petaling Jaya, Malaysia
23 February 2015

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Assets					
Property, plant and equipment	3	1,293,757	1,046,463	–	–
Goodwill	4	61,024	61,024	–	–
Investments in subsidiaries	5	–	–	188,022	188,022
Investment in an associate	6	3,631	3,619	3,000	3,000
Deferred tax assets	7	27,958	25,775	–	–
Trade and other receivables	8	23,576	21,866	–	–
Total non-current assets		1,409,946	1,158,747	191,022	191,022
Trade and other receivables	8	504,540	502,207	489,074	488,879
Inventories	9	370,291	408,614	–	–
Current tax assets		3,015	3,970	240	36
Cash and cash equivalents	10	15,504	15,196	–	–
Total current assets		893,350	929,987	489,314	488,915
Total assets		2,303,296	2,088,734	680,336	679,937
Equity					
Share capital		234,500	234,500	234,500	234,500
Reserves		32,668	33,407	33,000	33,000
Retained earnings		509,969	548,537	411,134	410,904
Total equity attributable to owners of the Company	11	777,137	816,444	678,634	678,404
Liabilities					
Loans and borrowings	12	90,067	92,343	–	–
Employee benefits	13	62,486	25,337	–	–
Deferred tax liabilities	7	67,522	82,748	–	–
Total non-current liabilities		220,075	200,428	–	–
Loans and borrowings	12	84,313	7,555	–	–
Trade and other payables	14	1,170,240	1,022,999	1,702	1,533
Current tax liabilities		51,531	41,308	–	–
Total current liabilities		1,306,084	1,071,862	1,702	1,533
Total liabilities		1,526,159	1,272,290	1,702	1,533
Total equity and liabilities		2,303,296	2,088,734	680,336	679,937

The notes on pages 46 to 97 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Revenue		4,808,933	4,787,925	551,375	551,075
Cost of sales		(3,108,981)	(3,089,908)	–	–
Gross profit		1,699,952	1,698,017	551,375	551,075
Other income		1,581	3,793	–	–
Selling and distribution expenses		(844,464)	(824,372)	–	–
Administrative expenses		(128,337)	(136,171)	(2,717)	(1,760)
Other expenses		(3,785)	(6,625)	–	–
Results from operating activities	15	724,947	734,642	548,658	549,315
Finance income		1,650	5,947	3,043	2,711
Finance costs		(25,722)	(21,937)	–	–
Net finance (costs)/income		(24,072)	(15,990)	3,043	2,711
Share of profit of an equity accounted associate, net of tax		312	402	–	–
Profit before tax		701,187	719,054	551,701	552,026
Income tax expense	17	(150,803)	(157,353)	(396)	(590)
Profit for the year		550,384	561,701	551,305	551,436
Other comprehensive (expense)/income, net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		(739)	1,357	–	–
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		(37,877)	6,355	–	–
Other comprehensive (expense)/income for the year, net of tax	18	(38,616)	7,712	–	–
Total comprehensive income for the year		511,768	569,413	551,305	551,436
Basic and diluted earnings per ordinary share (sen)	19	235	240		

The notes on pages 46 to 97 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Group	Note	Attributable to owners of the Company				Total equity RM'000
		Non-distributable		Distributable		
		Share capital RM'000	Share premium RM'000	Hedging reserve RM'000	Retained earnings RM'000	
At 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 2013/1 January 2014		234,500	33,000	407	548,537	816,444
Cash flow hedge		–	–	(739)	–	(739)
Remeasurement of defined benefit liability		–	–	–	(37,877)	(37,877)
Other comprehensive expense for the year		–	–	(739)	(37,877)	(38,616)
Profit for the year		–	–	–	550,384	550,384
Total comprehensive (expense)/income for the year		–	–	(739)	512,507	511,768
Dividends to owners of the Company	20	–	–	–	(551,075)	(551,075)
Total transactions with owners of the Company		–	–	–	(551,075)	(551,075)
At 31 December 2014		234,500	33,000	(332)	509,969	777,137

The notes on pages 46 to 97 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Company	Note	Attributable to owners of the Company			Total equity RM'000
		Share capital RM'000	Share premium RM'000	Retained earnings RM'000	
At 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 2013/1 January 2014		234,500	33,000	410,904	678,404
Profit and total comprehensive income for the year		-	-	551,305	551,305
Dividends to owners of the Company	20	-	-	(551,075)	(551,075)
Total transactions with owners of the Company		-	-	(551,075)	(551,075)
At 31 December 2014		234,500	33,000	411,134	678,634

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2014

		Group		Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows from operating activities					
Profit before tax		701,187	719,054	551,701	552,026
<i>Adjustments for:</i>					
Depreciation on property, plant and equipment	3	112,210	108,971	–	–
Dividend income		–	–	(551,375)	(551,075)
Expenses related to defined benefit plans	13	9,667	82	–	–
Finance costs		25,722	21,937	–	–
Finance income		(1,650)	(5,947)	(3,043)	(2,711)
Loss on disposal of property, plant and equipment	15	976	1,647	–	–
Property, plant and equipment written off	15	350	618	–	–
Share-based payments	15	9,147	10,082	–	–
Share of profit of an equity accounted associate, net of tax		(312)	(402)	–	–
Operating profit/(loss) before changes in working capital		857,297	856,042	(2,717)	(1,760)
Change in inventories		38,323	2,556	–	–
Change in trade and other payables		129,876	56,284	169	36
Change in trade and other receivables		(1,751)	(70,070)	(195)	1,111
Cash generated from/(used in) operations		1,023,745	844,812	(2,743)	(613)
Dividends received from subsidiaries		–	–	551,075	502,675
Employee benefits paid	13	(22,060)	(20,817)	–	–
Income tax paid		(145,128)	(160,387)	(600)	(598)
Net cash from operating activities		856,557	663,608	547,732	501,464

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	(361,008)	(212,217)	-	-
Dividends received from associate		300	-	300	-
Finance income received		1,650	5,947	3,043	2,711
Proceeds from disposal of property, plant and equipment		737	2,290	-	-
Net cash (used in)/from investing activities		(358,321)	(203,980)	3,343	2,711
Cash flows from financing activities					
Dividends paid to owners of the Company	20	(551,075)	(504,175)	(551,075)	(504,175)
Finance costs paid		(25,722)	(21,937)	-	-
Payment of finance lease liabilities		(4,638)	(4,311)	-	-
Proceeds from borrowings		54,946	48,539	-	-
Net cash used in financing activities		(526,489)	(481,884)	(551,075)	(504,175)
Net decrease in cash and cash equivalents		(28,253)	(22,256)	-	-
Cash and cash equivalents at 1 January	(i)	12,337	34,593	-	-
Cash and cash equivalents at 31 December	(i)	(15,916)	12,337	-	-

(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 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Cash and bank balances	10	15,504	11,864	-	-
Deposits placed with licensed banks	10	-	3,332	-	-
Bank overdraft	12	(31,420)	(2,859)	-	-
		(15,916)	12,337	-	-

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

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM361,567,000 (2013: RM214,177,000), of which RM559,000 (2013: RM1,960,000) were acquired by means of finance leases.

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
Mutiar Damansara
47810 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2014 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 2014 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 23 February 2015.

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 requirements of the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRS 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 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)*

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (Annual Improvements 2012–2014 Cycle)
- Amendments to MFRS 7, *Financial Instruments: Disclosures* (Annual Improvements 2012–2014 Cycle)
- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits* (Annual Improvements 2012–2014 Cycle)
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting* (Annual Improvements 2012–2014 Cycle)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments* (2014)

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

- 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,
- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016,
- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017, and
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

Notes to the financial statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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 except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(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.

(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, and have been applied consistently by Group entities, 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 controls an entity when it 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. Potential voting rights are considered when assessing control only when such rights are substantive.

The Group also 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.

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.

(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.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iii) Associates (continued)

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 remeasured. 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 equity accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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 period, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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)).

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

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.

(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 expired 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iv) Derecognition (continued)

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.

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.

(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.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 with original maturities of 3 months or less, and are used by the Group in the management of their short term commitments. 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.

Notes to the financial statements

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 a 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(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

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.

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.

(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

Performance Stock Unit Plan ("PSUP")

Certain employees of the Group are entitled to PSUP that gives the right to Nestlé S.A. shares. The fair value of the PSUP granted to these employees is recognised as an employee expense in profit or loss, over the period that the employees 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.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) 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) Finance income

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which 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.

(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 equity holders 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.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 segments' 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

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.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. PROPERTY, PLANT AND EQUIPMENT

Group Cost	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
At 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/ 1 January 2014	96,007	386,751	1,676,536	14,941	94,634	108,930	2,377,799
Additions	320	20,028	102,125	386	6,088	232,620	361,567
Disposals	–	(30)	(10,286)	(553)	(455)	–	(11,324)
Written off	–	(7)	(6,492)	–	(36)	–	(6,535)
Transfer in/(out)	–	9,077	34,953	–	193	(44,223)	–
At 31 December 2014	96,327	415,819	1,796,836	14,774	100,424	297,327	2,721,507
Depreciation and impairment loss							
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

Notes to the financial statements

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 2014							
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
Depreciation for the year	1,717	10,117	90,655	1,699	8,022	–	112,210
Disposals	–	(8)	(8,722)	(460)	(421)	–	(9,611)
Written off	–	(2)	(6,155)	–	(28)	–	(6,185)
At 31 December 2014							
Accumulated depreciation	14,352	129,820	1,177,484	8,628	76,353	–	1,406,637
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	14,352	136,104	1,192,166	8,628	76,500	–	1,427,750
Carrying amounts							
At 1 January 2013	85,083	249,952	554,759	8,758	24,514	22,746	945,812
At 31 December 2013/ 1 January 2014	83,372	260,754	560,148	7,552	25,707	108,930	1,046,463
At 31 December 2014	81,975	279,715	604,670	6,146	23,924	297,327	1,293,757

Leased plant and machinery

At 31 December 2014, the net carrying amount of leased plant and machinery of the Group was RM6,494,000 (2013: RM10,950,000).

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).

4. GOODWILL

	Group	
	2014	2013
	RM'000	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 3-year business plan.
- The anticipated revenue growth rate for the 3-year business plan is estimated to be 5% to 6% per annum.
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum.
- A discount rate of 6.4% (2013: 8.3%) 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	
	2014	2013
	RM'000	RM'000
At cost		
Unquoted shares	188,022	188,022

Notes to the financial statements

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	
			2014 %	2013 %
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 confectionery 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

6. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At cost				
Unquoted shares	3,000	3,000	3,000	3,000
Share of post-acquisition reserves	631	619	–	–
	3,631	3,619	3,000	3,000

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Property, plant and equipment	–	–	(105,458)	(100,902)	(105,458)	(100,902)
Employee benefit plans	17,300	6,335	–	–	17,300	6,335
Provisions	30,740	20,522	–	–	30,740	20,522
Hedging reserve	105	–	–	(136)	105	(136)
Unutilised tax incentives	17,749	17,208	–	–	17,749	17,208
Tax assets/(liabilities)	65,894	44,065	(105,458)	(101,038)	(39,564)	(56,973)
Set off of tax	(37,936)	(18,290)	37,936	18,290	–	–
Net tax assets/(liabilities)	27,958	25,775	(67,522)	(82,748)	(39,564)	(56,973)

Movement in temporary differences during the year

Group	At 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/ 1.1.2014 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2014 RM'000
Property, plant and equipment	(93,917)	(6,985)	–	(100,902)	(4,556)	–	(105,458)
Employee benefit plans	13,636	(5,182)	(2,119)	6,335	(700)	11,665	17,300
Provisions	19,431	1,091	–	20,522	10,218	–	30,740
Hedging reserve	316	–	(452)	(136)	–	241	105
Unutilised tax incentives	18,088	(880)	–	17,208	541	–	17,749
	(42,446)	(11,956)	(2,571)	(56,973)	5,503	11,906	(39,564)

Notes to the financial statements

8. TRADE AND OTHER RECEIVABLES

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Non-current					
Loans to employees		23,576	21,866	–	–
Current					
Trade					
Trade receivables		188,053	181,480	–	–
Less: Impairment loss		(5,356)	(4,117)	–	–
		182,697	177,363	–	–
Amounts due from related companies	8.1	147,871	143,170	–	–
Amount due from an associate	8.1	6,264	2,700	–	–
Designated as hedging instruments					
– Commodity futures		1,844	2,163	–	–
– Forward exchange contracts		15,470	6,864	–	–
		354,146	332,260	–	–
Non-trade					
Amounts due from subsidiaries	8.2	–	–	488,954	488,759
Amounts due from related companies	8.1	26,601	31,511	–	–
Other receivables, deposits and prepayments	8.3	123,793	138,436	120	120
		150,394	169,947	489,074	488,879
		504,540	502,207	489,074	488,879
Total		528,116	524,073	489,074	488,879

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 RM26,510,000 (2013: RM31,435,000) which is subject to interest at 3.80% to 4.05% (2013: 3.16% to 3.91%) 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 RM78,310,000 (2013: RM78,132,000) which is subject to interest at 3.80% to 4.05% (2013: 3.16% to 3.91%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM11,568,000 (2013: RM11,812,000) which are unsecured and interest free and down payment to vendors of RM58,928,000 (2013: RM54,468,000).

9. INVENTORIES

	Group	
	2014	2013
	RM'000	RM'000
Raw and packaging materials	158,543	179,964
Work-in-progress	22,673	19,817
Finished goods	165,165	187,317
Spare parts	23,910	21,516
	370,291	408,614
Recognised in profit or loss		
– Inventories recognised as cost of sales	2,813,131	2,809,719

10. CASH AND CASH EQUIVALENTS

	Group	
	2014	2013
	RM'000	RM'000
Cash and bank balances	15,504	11,864
Deposits placed with licensed banks	–	3,332
	15,504	15,196

11. CAPITAL AND RESERVES

Share capital

	Group and Company			
	Amount	Number	Amount	Number
	2014	of shares	2013	of shares
	RM'000	2014	RM'000	2013
		'000		'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 2014 RM'000	2013 RM'000
Non-current			
Loan from a related company – unsecured		84,264	84,264
Finance lease liabilities	12.1	5,803	8,079
		90,067	92,343
Current			
Finance lease liabilities	12.1	2,893	4,696
Bank overdraft – unsecured		31,420	2,859
Revolving credit		50,000	–
		84,313	7,555
		174,380	99,898

12.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2014 RM'000	Interest 2014 RM'000	Present value of minimum lease payments 2014 RM'000	Future minimum lease payments 2013 RM'000	Interest 2013 RM'000	Present value of minimum lease payments 2013 RM'000
Less than one year	3,320	427	2,893	5,306	610	4,696
Between one and five years	6,225	422	5,803	8,844	765	8,079
	9,545	849	8,696	14,150	1,375	12,775

13. EMPLOYEE BENEFITS

13.1 Retirement benefits

	Group	
	2014 RM'000	2013 RM'000
Net defined benefit liability/Total employee benefits liabilities	62,486	25,337

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 RM21,312,000 in contributions to its defined benefit plans in 2015.

Notes to the financial statements

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 2014	246,807	(221,470)	25,337
Included in profit or loss			
Current service cost	8,020	–	8,020
Interest cost/(income)	15,433	(13,786)	1,647
	23,453	(13,786)	9,667
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from			
– Financial assumptions	19,325	–	19,325
– Experience adjustments	23,199	–	23,199
Return on plan assets, excluding interest income	–	7,018	7,018
	42,524	7,018	49,542
Other			
Contributions paid by the employer	–	(22,060)	(22,060)
Benefits paid	(21,457)	21,457	–
At 31 December 2014	291,327	(228,841)	62,486

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 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

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 in 2013.

Notes to the financial statements

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Plan assets

Plan assets comprise:

	Group	
	2014	2013
	RM'000	RM'000
Equity securities	106,776	103,443
Government bonds	48,191	42,441
Corporate bonds	25,000	45,000
Unit trusts	10,000	–
Cash and cash equivalents	29,817	21,481
Others	9,057	9,105
	228,841	221,470

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	
	2014	2013
Discount rate	6.00%	6.50%
Expected return on plan assets	6.00%	6.50%
Future salary increases	4.50%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 17.1 years for both males and females at the end of the reporting date.

At 31 December 2014, the weighted-average duration of the defined benefit obligation was 10.40 years.

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

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:

	Group	
	Defined benefit obligation	
	Increase	Decrease
	RM'000	RM'000
2014		
Discount rate (0.5% movement)	(12,965)	14,011
Future salary growth (0.5% movement)	1,740	(1,655)
Future pension growth (0.5% movement)	871	(871)
Future mortality (1 year movement)	(3,985)	3,900
2013		
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

		Group		Company	
	Note	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Trade					
Trade payables		646,950	591,998	–	–
Amounts due to related companies	14.1	111,748	89,593	–	–
Amount due to an associate	14.1	18,915	12,995	–	–
Designated as hedging instruments					
– Commodity futures		6,962	–	–	–
– Forward exchange contracts		18,782	7,474	–	–
		803,357	702,060	–	–
Non-trade					
Amounts due to related companies	14.1	80,086	80,050	–	–
Other payables		162,464	98,972	380	391
Accrued expenses		124,333	141,917	1,322	1,142
		366,883	320,939	1,702	1,533
		1,170,240	1,022,999	1,702	1,533

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 RM79,800,000 (2013: RM78,271,000) which is subject to interest at 3.80% to 4.05% (2013: 3.16% to 3.91%) per annum.

15. RESULTS FROM OPERATING ACTIVITIES

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration					
– Statutory audit					
KPMG in Malaysia		524	529	137	137
– Other services					
KPMG in Malaysia		148	173	140	173
Affiliates of KPMG in Malaysia		24	21	1	1
Depreciation of property, plant and equipment	3	112,210	108,971	–	–
Impairment loss on trade receivables (net)		1,239	145	–	–
Loss on disposal of property, plant and equipment		976	1,647	–	–
Net foreign exchange loss					
– Realised		–	5,449	–	–
– Unrealised		3,564	95	–	–
Personnel expenses (including key management personnel)					
– Contributions to Employees Provident Fund		40,385	39,439	–	–
– Expenses related to defined benefit plans	13	9,667	82	–	–
– Share-based payments		9,147	10,082	–	–
– Wages, salaries and others		471,856	475,014	–	–
Property, plant and equipment written off		350	618	–	–
Rental expenses on land and buildings		51,580	50,506	–	–
and after crediting:					
Dividend income from					
– Subsidiaries (unquoted)		–	–	551,075	551,075
– Associate (unquoted)		–	–	300	–
Net foreign exchange gain					
– Realised		1,024	–	–	–

Notes to the financial statements

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Directors				
– Fees	1,276	320	1,276	320
– Remuneration	5,379	5,008	–	–
– Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	855	929	50	50
Total short-term employee benefits	7,510	6,257	1,326	370
Post-employment benefits	436	385	–	–
Share-based payments	1,604	1,227	–	–
	9,550	7,869	1,326	370
Other key management personnel				
– Short-term employee benefits	10,251	9,340	–	–
– Post-employment benefits	584	381	–	–
– Share-based payments	2,520	1,725	–	–
	13,355	11,446	–	–
	22,905	19,315	1,326	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

	Note	Group 2014 RM'000	2013 RM'000	Company 2014 RM'000	2013 RM'000
Recognised in the profit or loss					
Income tax expense		150,803	157,353	396	590
Major components of income tax expense include:					
Current tax expense					
Malaysian – current year		161,388	161,596	396	597
– prior year		(5,082)	(16,199)	–	(7)
Total current tax recognised in profit or loss		156,306	145,397	396	590
Deferred tax expense					
Origination and reversal of temporary differences		(361)	11,956	–	–
Over provided in prior years		(2,614)	–	–	–
Change of tax rate		(2,528)	–	–	–
Total deferred tax recognised in profit or loss	7	(5,503)	11,956	–	–
Total income tax expense		150,803	157,353	396	590
Reconciliation of tax expense					
Profit for the year		550,384	561,701	551,305	551,436
Total income tax expense		150,803	157,353	396	590
Profit excluding tax		701,187	719,054	551,701	552,026
Income tax calculated using					
Malaysian tax rate of 25%		175,297	179,764	137,925	138,007
Non-deductible expenses		3,730	3,512	315	359
Tax exempt income		–	–	(137,844)	(137,769)
Tax incentives		(20,976)	(16,793)	–	–
Change in tax rate		(2,528)	–	–	–
Other items		2,976	7,069	–	–
Over provided in prior years		(7,696)	(16,199)	–	(7)
		150,803	157,353	396	590

Notes to the financial statements

18. OTHER COMPREHENSIVE (EXPENSE)/INCOME

Group	2014			2013		
	Before tax RM'000	Tax (expense)/ benefit RM'000	Net of tax RM'000	Before tax RM'000	Tax (expense)/ benefit RM'000	Net of tax RM'000
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
– Gains/(Losses) arising during the year	11,543	(2,770)	8,773	(11,401)	2,850	(8,551)
– Reclassification adjustments for losses included in profit or loss	(12,523)	3,005	(9,518)	13,210	(3,302)	9,908
	(980)	235	(745)	1,809	(452)	1,357
– Change of tax rate	–	6	6	–	–	–
	(980)	241	(739)	1,809	(452)	1,357
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	(49,542)	11,890	(37,652)	8,474	(2,119)	6,355
– Change of tax rate	–	(225)	(225)	–	–	–
	(49,542)	11,665	(37,877)	8,474	(2,119)	6,355
	(50,522)	11,906	(38,616)	10,283	(2,571)	7,712

19. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2014 was based on the profit attributable to ordinary shareholders of RM550.4 million (2013: RM561.7 million) and 234.5 million (2013: 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
2014			
Interim 2014 ordinary	60	140,700	24 September 2014
Final 2013 ordinary	175	410,375	5 June 2014
Total amount		551,075	
2013			
Interim 2013 ordinary	60	140,700	3 October 2013
Final 2012 ordinary	155	363,475	13 June 2013
Total amount		504,175	

After the end of 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 2014 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.

Group	Food and beverages		Others		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Segment revenue and results						
Revenue	3,905,872	3,904,390	903,061	883,535	4,808,933	4,787,925
Operating profit	601,006	594,732	126,412	145,755	727,418	740,487

Included in the measure of

segment operating profit are:

Depreciation on property, plant and equipment

	100,491	96,131	11,719	12,840	112,210	108,971
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Notes to the financial statements

21. OPERATING SEGMENTS (CONTINUED)

Reconciliations of reportable segment profit or loss

	2014 RM'000	Group 2013 RM'000
Profit or loss		
Total profit for reportable segments	727,418	740,487
Finance costs	(25,722)	(21,937)
Finance income	1,650	5,947
Other unallocated expenses	(2,471)	(5,845)
Share of profit of an associate not included in reportable segments	312	402
Consolidated profit before tax	701,187	719,054

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
2014			
Financial assets			
Group			
Trade and other receivables	523,127	505,813	17,314
Cash and cash equivalents	15,504	15,504	–
	538,631	521,317	17,314
Company			
Trade and other receivables	489,074	489,074	–
Financial liabilities			
Group			
Loans and borrowings	(174,380)	(174,380)	–
Trade and other payables	(1,170,240)	(1,144,496)	(25,744)
	(1,344,620)	(1,318,876)	(25,744)
Company			
Trade and other payables	(1,702)	(1,702)	–

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
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)	–

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22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
– Designated upon initial recognition	3,786	(11,546)	–	–
Loans and receivables	411	5,802	3,043	2,711
Financial liabilities measured at amortised cost	(22,434)	(22,123)	–	–
	(18,237)	(27,867)	3,043	2,711

Notes to the financial statements

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 (2013: 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:

	Gross RM'000	Individual impairment RM'000	Net RM'000
Group			
2014			
Not past due	177,274	–	177,274
Past due 0 – 30 days	1,943	–	1,943
Past due 31 – 120 days	1,488	–	1,488
Past due more than 120 days	7,348	(5,356)	1,992
	188,053	(5,356)	182,697
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

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

	Group 2014 RM'000	2013 RM'000
At 1 January	4,117	3,972
Impairment loss recognised	1,248	286
Impairment loss reversed	(9)	(141)
At 31 December	5,356	4,117

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.

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

Notes to the financial statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

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.

Amounts 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 at 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:

	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
Group						
2014						
Non-derivative financial liabilities						
Finance lease liabilities	8,696	5.00	9,545	3,320	2,967	3,258
Bank overdraft – unsecured	31,420	3.60	31,420	31,420	–	–
Revolving credit	50,000	3.60	50,000	50,000	–	–
Loan from a related company – unsecured	84,264	3.41–3.94	90,904	3,320	87,584	–
Advances from related companies	79,800	3.80–4.05	79,800	79,800	–	–
Trade and other payables, excluding derivatives	1,064,696	–	1,064,696	1,064,696	–	–
	1,318,876		1,326,365	1,232,556	90,551	3,258
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
– Outflow	3,312	–	668,213	668,213	–	–
– Inflow	–	–	(664,901)	(664,901)	–	–
Commodity futures	5,118	–	5,118	5,118	–	–
	1,327,306		1,334,795	1,240,986	90,551	3,258

Notes to the financial statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis (continued)

	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
Group						
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	–	–
	<u>1,115,423</u>		<u>1,122,544</u>	<u>1,026,563</u>	<u>90,218</u>	<u>5,763</u>
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
– Outflow	610	–	668,420	668,420	–	–
– Inflow	–	–	(667,810)	(667,810)	–	–
Commodity futures	(2,163)	–	(2,163)	(2,163)	–	–
	<u>1,113,870</u>		<u>1,120,991</u>	<u>1,025,010</u>	<u>90,218</u>	<u>5,763</u>

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

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 Euro ("EUR").

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk

22.6.1 Currency risk

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.

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:

	2014			2013		
	Denominated in			Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	SGD* RM'000
Group						
Trade receivables	3,999	–	–	4,052	–	1,393
Trade payables	(92,840)	(42,855)	(17,948)	(40,003)	(47,973)	(8,109)
Intra-group receivables	141,371	809	–	137,444	794	–
Intra-group payables	(62,245)	(506)	(2,473)	(55,897)	(674)	(12,235)
Commodity futures	(6,962)	774	–	547	1,041	–
Exposure in the statement of financial position	(16,677)	(41,778)	(20,421)	46,143	(46,812)	(18,951)
Net contracted foreign exchange contracts	(89,261)	(1,117)	(3,154)	(27,387)	–	–
Net exposure	(105,938)	(42,895)	(23,575)	18,756	(46,812)	(18,951)

* The Group's exposure to SGD is not significant for the financial year ended 31 December 2014.

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% (2013: 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	
	2014	2013
	RM'000	RM'000
USD	10,594	(1,876)
GBP	4,289	4,681
EUR	2,358	–
SGD	–	1,895

A 10% (2013: 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Fixed rate instrument				
Financial liabilities	(8,696)	(12,775)	–	–
Floating rate instruments				
Financial assets	26,510	31,435	78,310	78,132
Financial liabilities	(245,484)	(165,394)	–	–
	(218,974)	(133,959)	78,310	78,132

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 of the Group and the Company by RM2,190,000 (2013: RM1,340,000) and RM783,000 (2013: RM781,000) respectively 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, palm oil and sugar 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, cocoa and sugar 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 RM667,331,000 (2013: RM670,633,000) and RM128,349,000 (2013: RM61,856,000) 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:

	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
Group			
2014			
Forward exchange contracts	(3,312)	(3,312)	(3,312)
Commodity futures	(5,118)	(5,118)	(5,118)
2013			
Forward exchange contracts	(610)	(610)	(610)
Commodity futures	2,163	2,163	2,163

During the financial year, a gain of RM8,773,000 (2013: loss of RM8,551,000) was recognised in the other comprehensive income and RM9,518,000 (2013: RM9,908,000) was reclassified from equity to profit or loss. Ineffectiveness loss amounting to RM8,738,000 (2013: gain of RM1,665,000) 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 their 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 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	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1			Total	Level 1			Total		
	RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000	Level 2 RM'000	Level 3 RM'000	RM'000		
Financial assets										
Commodity futures	1,844	-	-	1,844	-	-	-	-	1,844	1,844
Forward exchange contracts	-	15,470	-	15,470	-	-	-	-	15,470	15,470
Loans to employees	-	-	-	-	-	-	35,144	35,144	35,144	35,144
	1,844	15,470	-	17,314	-	-	35,144	35,144	52,458	52,458
Financial liabilities										
Commodity futures	(6,962)	-	-	(6,962)	-	-	-	-	(6,962)	(6,962)
Forward exchange contracts	-	(18,782)	-	(18,782)	-	-	-	-	(18,782)	(18,782)
Loan from a related company	-	-	-	-	-	-	(84,264)	(84,264)	(84,264)	(84,264)
Finance lease liabilities	-	-	-	-	-	-	(8,225)	(8,225)	(8,225)	(8,696)
	(6,962)	(18,782)	-	(25,744)	-	-	(92,489)	(92,489)	(118,233)	(118,704)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

Group 2013	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1				Level 1					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	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)

Notes to the financial statements

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 2 fair value

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 (2013: no transfer in either directions).

Level 3 fair value

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.

22.9 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.

Notes to the financial statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.9 Master netting or similar agreements (continued)

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

	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
Group				
2014				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	15,470	(9,414)	6,056
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	(18,782)	9,414	(9,368)
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)

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. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

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	
	2014	2013
	RM'000	RM'000
Less than one year	22,822	23,395
Between one and five years	21,851	45,867
	44,673	69,262

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	
	2014	2013
	RM'000	RM'000
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	139,267	193,656
Contracted but not provided for within one year	64,644	129,178
	203,911	322,834

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.

Notes to the financial statements

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.

	Note	2014		2013	
		Amount transacted for the year ended	Balance outstanding as at	Amount transacted for the year ended	Balance outstanding as at
		31 December RM'000	31 December RM'000	31 December RM'000	31 December RM'000
Group					
Related companies					
Sales of goods and services	a	(797,859)	159,144	(938,829)	136,247
Purchases of goods and services	a	464,411	(106,805)	490,797	(72,614)
Royalties		232,090	(17,272)	221,495	(14,670)
IT shared services		33,171	–	29,873	–
Finance costs		5,702	(622)	3,430	(744)
Company					
Subsidiary					
Finance income	b	(3,043)	269	(2,703)	253

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 3.80% to 4.05% (2013: 3.16% to 3.91%) per annum and are repayable on demand.

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	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries:				
– Realised	580,125	591,159	411,134	410,904
– Unrealised	(132,568)	(101,340)	–	–
	447,557	489,819	411,134	410,904
Total retained earnings of an associate:				
– Realised	631	619	–	–
Add: Consolidation adjustments	61,781	58,099	–	–
Total retained earnings	509,969	548,537	411,134	410,904

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 40 to 96 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2014 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 97 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

Martin Peter Krügel

Petaling Jaya, Malaysia
23 February 2015

STATUTORY DECLARATION

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

I, **Martin Peter Krügel**, 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 40 to 97 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 23 February 2015.

Martin Peter Krügel

Before me:

Faridah Bt. Sulaiman

Commissioner of Oaths (No. B228)

Petaling Jaya, Malaysia

23 February 2015

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 2014 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 40 to 96.

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 2014 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.

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 97 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
23 February 2015

SHAREHOLDINGS STATISTICS

as at 27 February 2015

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	: 5,529
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	19,723,800	8.411
Amanahraya Trustees Berhad – Skim Amanah Saham Bumiputera	8,002,600	3.412

30 LARGEST SHAREHOLDERS

Name	Number of shares held	%
1 Nestlé S.A.	170,276,563	72.612
2 Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board	19,723,800	8.411
3 Amanahraya Trustees Berhad – Skim Amanah Saham Bumiputera	8,002,600	3.412
4 Kumpulan Wang Persaraan (diperbadankan)	4,353,500	1.856
5 Malaysia Nominees (Tempatan) Sdn Bhd – Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,505,810	1.495
6 Amanahraya Trustees Berhad – Amanah Saham Malaysia	1,699,600	0.724
7 Employees Provident Fund Board	1,500,000	0.639
8 Pertubuhan Keselamatan Sosial	1,359,200	0.579
9 Amanahraya Trustees Berhad – Public Islamic Dividend Fund	1,103,300	0.470
10 Amanahraya Trustees Berhad – Amanah Saham Wawasan 2020	797,100	0.339
11 Amanahraya Trustees Berhad – Public Islamic Equity Fund	691,000	0.294
12 Kwang Teow Sang Sdn Bhd	560,700	0.239
13 Cartaban Nominees (Tempatan) Sdn Bhd – Exempt An for Eastspring Investments Berhad	540,800	0.230
14 Amanahraya Trustees Berhad – Public Islamic Select Enterprises Fund	534,700	0.228
15 Cartaban Nominees (Asing) Sdn Bhd – RBC Investor Services Bank for Vontobel Fund – Far East Equity	523,000	0.223
16 Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board (Aberdeen)	441,900	0.188
18 Malaysia Nominees (Tempatan) Sdn Bhd – Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	411,400	0.175
19 Woo Khai Yoon	405,000	0.172
17 Citigroup Nominees (Tempatan) Sdn Bhd – Kumpulan Wang Persaraan (diperbadankan) (Aberdeen)	398,500	0.169
20 Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
21 Kuok Foundation Berhad	274,200	0.116
22 Seah Gak San	252,500	0.107

30 LARGEST SHAREHOLDERS (CONTINUED)

	Name	Number of shares held	%
23	Jarnazz Sdn Bhd	248,000	0.105
24	Amanahraya Trustees Berhad – Public Dividend Select Fund	201,500	0.085
25	Mohd Nasser Bin Jaafar	194,550	0.082
26	Maybank Nominees (Tempatan) Sdn Bhd – Etiqa Insurance Berhad (Life Par Fund)	190,500	0.081
28	Tan Seng Kee Sdn Bhd	169,761	0.072
27	Citigroup Nominees (Asing) Sdn Bhd – CBNY for DFA Emerging Markets Series	166,700	0.071
29	Yeap Chor Beng & Sons Sdn Bhd	158,500	0.067
30	Abdul Rashid Bin Jaafar	157,750	0.067

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 – 99	584	10.563	3,964	0.001
100 – 1,000	3,574	64.641	1,914,207	0.816
1,001 – 10,000	1,057	19.117	3,643,192	1.554
10,001 – 100,000	270	4.883	8,108,299	3.458
100,001 – less than 5% of issued shares	42	0.760	30,829,975	13.147
5% and above of issued shares	2	0.036	190,000,363	81.024
Total	5,529	100.000	234,500,000	100.000

DIRECTORS' SHAREHOLDINGS

	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
The Company				
Dato' Frits van Dijk	8,000	0.00340	–	–
Nestle S.A., the holding company				
Dato' Frits van Dijk	240,000	0.00744	–	–
Mr Alois Hofbauer	4,555	0.00014	–	–
Mr Martin Peter Krügel	1,150	0.00004	–	–

LIST OF PROPERTIES HELD

at 31 December 2014

							Net Book Value RM'000
Location	Tenure	Age*	Expiry Date	Size (m ²)	Description		
1. No. 25 Jalan Tandang 46050 Petaling Jaya, Selangor	Leasehold	54	Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069	50,342	Factory		16,095
2. Lot No. 3 Jalan Playar 15/1 40700 Shah Alam, Selangor	Leasehold	44	10.6.2070	10,150	Factory		1,884
3. Lot No. 5 Jalan Playar 15/1 40700 Shah Alam, Selangor	Leasehold	41	H.S.(D) 97 H.S.(D) 159 7.11.2072	62,596	Factory		6,224
4. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam, Selangor	Leasehold	45	29.1.2070	36,835	Factory & warehouse		11,219
5. Lot Nos. 691 – 696 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	23	27.6.2049	173,185	Factory		2,976
6. Lot Nos. 3863 – 3866 and Lot Nos. 687 – 690 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	23	27.6.2049		Factory		
7. Lot Nos. 3857 – 3862 Jalan Perusahaan 4 Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	23	27.6.2049	31,941	Factory		1,402
8. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	23	19.10.2053	25,460	Factory		327
9. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	20	12.10.2054	12,740	Factory		626
10. Plot 46 Bemban Industrial Park Batu Gajah, Perak	Leasehold	17	7.11.2058	157,500	Vacant land		5,970
11. Nos. 75 & 76 Jalan Playar 15/1 40200 Shah Alam, Selangor	Leasehold	5	8.9.2066	40,602	Factory (under construction)		34,938
12. Lot 3846 Pekan Chembong Daerah Rembau, Negeri Sembilan	Leasehold	1	26.06.2049	4,249	Vacant land		314

* Approximation of age of property in years.

Nestlé CONTACT DETAILS

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