

We will continue to drive sound business decision making and innovation planning to optimise the Company's long-term profitable growth, cash flow and total return to shareholders. We embrace the role of change agents, drive long-term value creation and ensure the highest standards for stewardship and governance throughout the company.



## Results

Interim	- announced	26 August 2010
Final	- announced	24 February 2011

## Dividends

Interim	- record date	15 September 2010
	- paid	5 October 2010
Final	- record date	12 May 2011
	- payable	26 May 2011

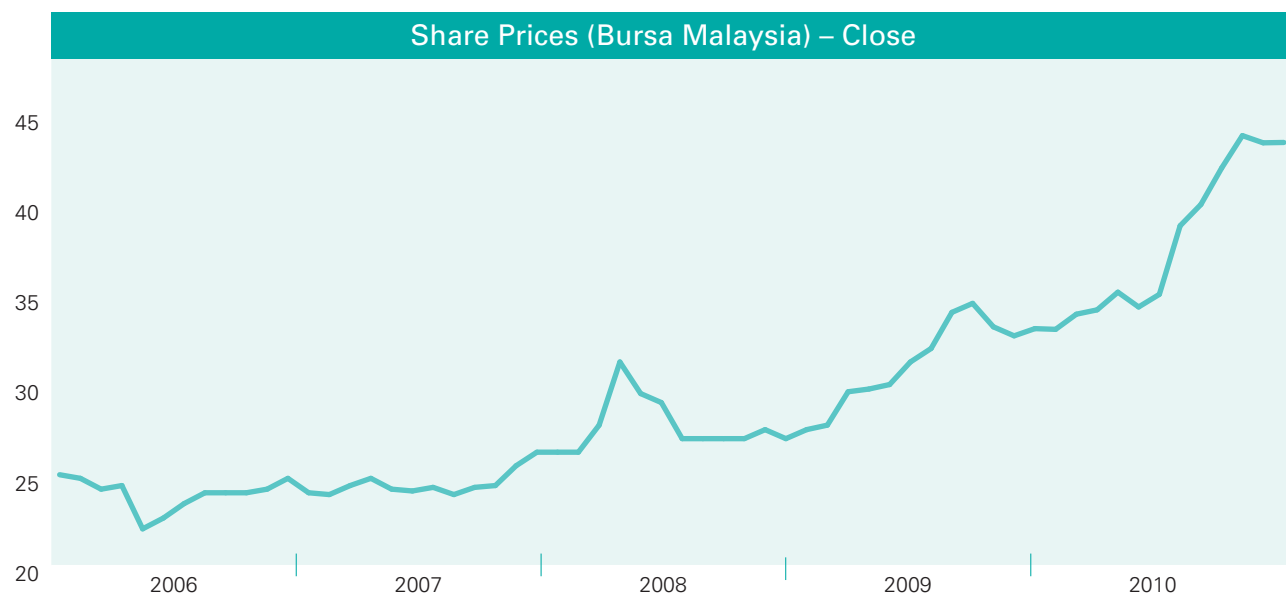
**Annual General Meeting** 21 April 2011

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# Share Performance

During the year	Calendar Year				
	2010	2009	2008	2007	2006
Highest - RM	<b>45.00</b>	35.68	32.00	32.00	26.00
Lowest - RM	<b>33.00</b>	27.00	25.50	23.40	21.40



Based on month-end closing price

# Group Financial Highlights

		2010 (RM'000)	2009 (RM'000)	+ / (-)
<b>TURNOVER</b>		<b>4,026,319</b>	3,744,233	7.5%
<b>EARNINGS / CASH FLOW</b>				
Profit before tax		<b>465,744</b>	440,261	5.8%
% of turnover		<b>11.6%</b>	11.8%	
Profit after tax and minority interest		<b>391,398</b>	351,793	11.3%
% of turnover		<b>9.7%</b>	9.4%	
Dividends paid & proposed (net)		<b>386,925</b>	351,750	10.0%
Depreciation of fixed assets		<b>101,112</b>	87,952	
Cash flow (net profit + depreciation)		<b>492,510</b>	439,745	
Capital expenditure		<b>143,915</b>	257,131	
Shareholders' funds		<b>613,336</b>	567,179	
<b>PERSONNEL</b>	(no.)	<b>5,284</b>	5,442	
<b>FACTORIES</b>	(no.)	<b>7</b>	7	
<b>PER SHARE</b>				
Market price <sup>3</sup>	(RM)	<b>43.34</b>	33.10	
Earnings <sup>1</sup>	(sen)	<b>166.91</b>	150.02	
Price earnings ratio		<b>25.97</b>	22.06	
Dividend (net)	(sen)	<b>165.00</b>	150.00	
Dividend yield	(%)	<b>3.8</b>	4.5	
Dividend cover <sup>1</sup>	(no.)	<b>1.0</b>	1.0	
Shareholders' funds	(RM)	<b>2.62</b>	2.42	
Net tangible assets <sup>2</sup>	(RM)	<b>2.36</b>	2.16	

## Notes :

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

# 5 Years' Statistics

FOR THE YEAR ENDED 31 DECEMBER 2010

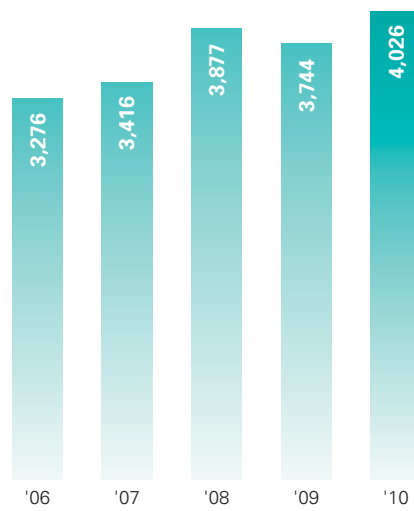
	2010 RM'000	2009 RM'000	2008 RM'000	2007 RM'000	2006 RM'000	
<b>TURNOVER</b>	<b>4,026,319</b>	3,744,233	3,877,068	3,416,028	3,275,541	
<b>EARNINGS / CASH FLOW</b>						
Profit before tax	<b>465,744</b>	440,261	441,353	395,298	363,285	
% of turnover	<b>11.6%</b>	11.8%	11.4%	11.6%	11.1%	
Profit after tax and minority interest	<b>391,398</b>	351,793	340,887	292,042	264,219	
% of turnover	<b>9.7%</b>	9.4%	8.8%	8.5%	8.1%	
Dividends paid & proposed (net)	<b>386,925</b>	351,750	448,341	266,889	234,500	
Depreciation of fixed assets	<b>101,112</b>	87,952	75,159	72,362	70,811	
Cash flow (net profit + depreciation + amortisation)	<b>492,510</b>	439,745	416,302	371,355	341,412	
% of turnover	<b>12.2%</b>	11.7%	10.7%	10.9%	10.4%	
Capital expenditure	<b>143,915</b>	257,131	188,055	102,640	79,065	
<b>EMPLOYMENT OF ASSETS</b>						
Fixed assets (net)	<b>897,505</b>	860,253	686,459	574,092	546,699	
Associated company	<b>3,189</b>	3,467	3,242	3,600	3,417	
Intangible assets	<b>61,024</b>	61,024	61,024	61,280	66,342	
Deferred tax assets	<b>10,441</b>	7,379	3,980	2,631	6,709	
Receivables, deposits & prepayments	<b>22,653</b>	22,923	23,814	22,194	19,414	
Net current assets / (liabilities)	<b>62,954</b>	58,892	(148,575)	69,592	133,568	
Total	<b>1,057,766</b>	1,013,938	629,944	733,389	776,149	
<b>FINANCED BY</b>						
Share capital	<b>234,500</b>	234,500	234,500	234,500	234,500	
Reserves	<b>378,836</b>	332,679	281,255	402,759	324,606	
Total shareholders' funds	<b>613,336</b>	567,179	515,755	637,259	559,106	
Deferred taxation	<b>75,595</b>	70,309	56,801	50,630	45,558	
Retirement benefit liabilities	<b>42,537</b>	48,411	54,698	40,321	64,277	
Borrowings	<b>326,298</b>	328,039	2,690	5,179	107,208	
Total	<b>1,057,766</b>	1,013,938	629,944	733,389	776,149	
<b>PER SHARE</b>						
Market price <sup>3</sup>	(RM)	<b>43.34</b>	33.10	27.00	26.25	24.80
Earnings <sup>1</sup>	(sen)	<b>166.91</b>	150.02	145.37	124.54	112.67
Price earnings ratio		<b>25.97</b>	22.06	18.57	21.08	22.01
Dividend (net)	(sen)	<b>165.00</b>	150.00	191.19	113.81	100.00
Dividend yield	(%)	<b>3.8</b>	4.5	7.1	4.3	4.0
Dividend cover <sup>1</sup>	(no.)	<b>1.0</b>	1.0	0.8	1.1	1.1
Shareholders' funds	(RM)	<b>2.62</b>	2.42	2.20	2.72	2.38
Net tangible assets <sup>2</sup>	(RM)	<b>2.36</b>	2.16	1.94	2.46	2.10
<b>PERSONNEL</b>	(no.)	<b>5,284</b>	5,442	5,293	4,685	4,151
<b>FACTORIES</b>	(no.)	<b>7</b>	7	7	7	7

## Notes :

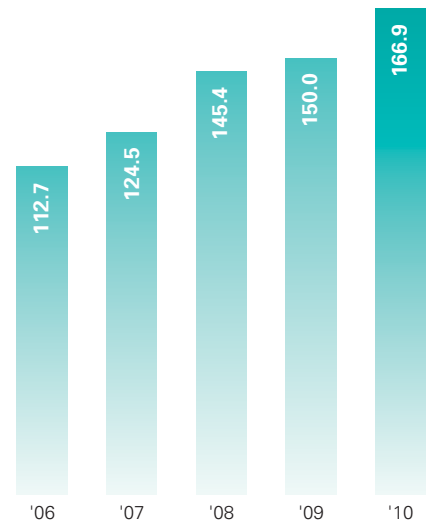
1. Earnings per share and dividend cover are based on profit after tax.
2. Net tangible assets consists of issued share capital plus reserves less intangible assets.
3. The market price represents last done price of the shares quoted on the last trading day of December.

# Financial Charts

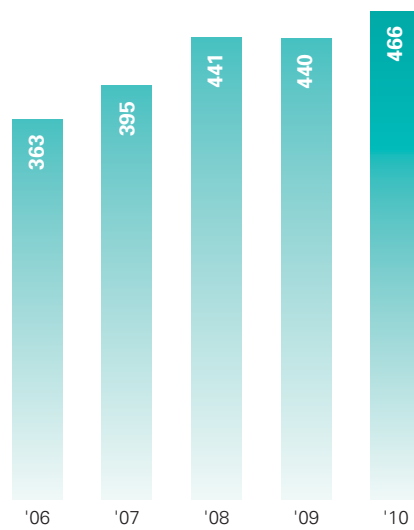
**Turnover**  
(RM million)



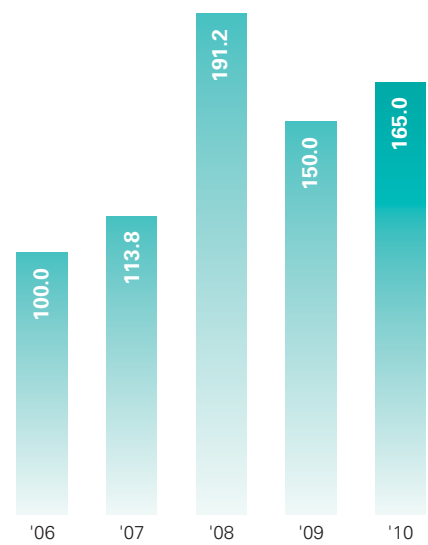
**Earnings Per Share**  
(sen)



**Pre-Tax Profit**  
(RM million)



**Net Dividend Per Share**  
(sen)



# Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2010.

## 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	391,398	386,647

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the 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 100 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM234,500,000 in respect of the year ended 31 December 2009 on 26 May 2010; and
- ii) an interim dividend of 50 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM117,250,000 in respect of the year ended 31 December 2010 on 5 October 2010.

The final dividend recommended by the Directors in respect of the year ended 31 December 2010 is 115 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM269,675,000.



**DIRECTORS OF THE COMPANY**

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

**Director**

Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail (*Chairman*)  
 YM Tengku Tan Sri Dr. Mahaleel bin Tengku Ariff  
 Dato' Frits van Dijk  
 Dato' Mohd. Rafik bin Shah Mohamad  
 Mr Peter Vogt  
 Mr Marc Seiler  
 Datuk Rafiah binti Salim  
 Tan Sri Dato' Ernst Zulliger (*retired on 22.4.2010*)

**Alternate**

Mr Detlef Krost  
 Mr Marc Seiler  
 Mr Peter Vogt

**DIRECTORS' INTERESTS**

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 year end as recorded in the Register of Directors' Shareholdings are as follows:

← Number of ordinary shares of RM1 each →

At 1.1.2010	Bought	Sold	At 31.12.2010
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Shareholdings in which Directors have direct interest

**Interest in the Company**

Dato' Frits van Dijk	8,000	–	–	<b>8,000</b>
Dato' Mohd. Rafik bin Shah Mohamad	27,000	–	–	<b>27,000</b>

← Number of ordinary shares of CHF0.1 each →

At 1.1.2010	Bought	Sold	At 31.12.2010
----------------	--------	------	------------------

**Interest in Nestlé S.A., the holding company**

Mr Peter Vogt	10,450	4,150	–	<b>14,600</b>
Mr Detlef Krost	2,800	–	–	<b>2,800</b>

None of the other Directors holding office at 31 December 2010 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 2010

### DIRECTORS' BENEFITS

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

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

### ISSUE OF SHARES

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

### OPTIONS GRANTED OVER UNISSUED SHARES

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

### OTHER STATUTORY INFORMATION

Before the statements of comprehensive income and statements of financial position 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 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 Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

### 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 results of the operations of the Group and of the Company for the financial year ended 31 December 2010 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:

**Peter Vogt**

Petaling Jaya,  
24 February 2011

**Marc Seiler**

# Statements of Financial Position

AS AT 31 DECEMBER 2010

	Note	2010 RM'000	Group 2009 RM'000	2010 RM'000	Company 2009 RM'000
<b>Assets</b>					
Property, plant and equipment	3	<b>897,505</b>	860,253	-	-
Goodwill	4	<b>61,024</b>	61,024	-	-
Investments in subsidiaries	5	-	-	<b>188,022</b>	188,022
Investment in an associate	6	<b>3,189</b>	3,467	<b>3,000</b>	3,000
Deferred tax assets	7	<b>10,441</b>	7,379	-	-
Receivables, deposits and prepayments	8	<b>22,653</b>	22,923	-	-
<b>Total non-current assets</b>		<b>994,812</b>	955,046	<b>191,022</b>	191,022
Receivables, deposits and prepayments	8	<b>354,303</b>	370,421	<b>347,743</b>	314,476
Inventories	9	<b>380,539</b>	354,381	-	-
Current tax assets		<b>344</b>	7,118	<b>20</b>	-
Cash and bank balances		<b>48,683</b>	25,751	-	-
<b>Total current assets</b>		<b>783,869</b>	757,671	<b>347,763</b>	314,476
<b>Total assets</b>		<b>1,778,681</b>	1,712,717	<b>538,785</b>	505,498
<b>Equity</b>					
Share capital		<b>234,500</b>	234,500	<b>234,500</b>	234,500
Reserves		<b>37,016</b>	32,891	<b>33,000</b>	33,000
Retained earnings		<b>341,820</b>	299,788	<b>270,481</b>	235,584
<b>Total equity attributable to owners of the Company</b>	10	<b>613,336</b>	567,179	<b>537,981</b>	503,084
<b>Liabilities</b>					
Loans and borrowings	11	<b>326,298</b>	328,039	-	-
Employee benefits	12	<b>42,537</b>	48,411	-	-
Deferred tax liabilities	7	<b>75,595</b>	70,309	-	-
<b>Total non-current liabilities</b>		<b>444,430</b>	446,759	-	-
Loans and borrowings	11	<b>87,256</b>	56,458	-	-
Payables and accruals	13	<b>623,269</b>	622,228	<b>804</b>	469
Taxation		<b>10,390</b>	20,093	-	1,945
<b>Total current liabilities</b>		<b>720,915</b>	698,779	<b>804</b>	2,414
<b>Total liabilities</b>		<b>1,165,345</b>	1,145,538	<b>804</b>	2,414
<b>Total equity and liabilities</b>		<b>1,778,681</b>	1,712,717	<b>538,785</b>	505,498

The notes on pages 16 to 55 are an integral part of these financial statements.

# Statements of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 RM'000	Group 2009 RM'000	2010 RM'000	Company 2009 RM'000
Revenue		<b>4,026,319</b>	3,744,233	<b>383,815</b>	355,635
Cost of goods sold		<b>(2,682,027)</b>	(2,462,739)	–	–
<b>Gross profit</b>		<b>1,344,292</b>	1,281,494	<b>383,815</b>	355,635
Other income		<b>736</b>	117	–	–
Distribution and selling expenses		<b>(749,794)</b>	(698,203)	–	–
Administrative expenses		<b>(95,576)</b>	(96,915)	<b>(1,500)</b>	(1,207)
Other expenses		<b>(12,167)</b>	(25,504)	–	–
<b>Results from operating activities</b>	14	<b>487,491</b>	460,989	<b>382,315</b>	354,428
Finance income		<b>35</b>	35	<b>2,730</b>	12,631
Finance costs		<b>(21,669)</b>	(21,123)	–	(11,755)
<b>Net finance (costs)/income</b>		<b>(21,634)</b>	(21,088)	<b>2,730</b>	876
Share of (loss)/profit of an equity accounted associate, net of tax		<b>(113)</b>	360	–	–
<b>Profit before tax</b>		<b>465,744</b>	440,261	<b>385,045</b>	355,304
Income tax expense	16	<b>(74,346)</b>	(88,468)	<b>1,602</b>	(2,483)
<b>Profit for the year</b>		<b>391,398</b>	351,793	<b>386,647</b>	352,821
<b>Other comprehensive income, net of tax</b>					
Cash flow hedge		<b>4,125</b>	2,705	–	–
Defined benefit plan actuarial gains		<b>2,384</b>	1,776	–	–
<b>Other comprehensive income for the year, net of tax</b>	17	<b>6,509</b>	4,481	–	–
<b>Total comprehensive income for the year</b>		<b>397,907</b>	356,274	<b>386,647</b>	352,821
<b>Basic earnings per ordinary share (sen)</b>	18	<b>167</b>	150		

The notes on pages 16 to 55 are an integral part of these financial statements.

# Consolidated Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

Group	Note	Attributable to owners of the Company			Total equity RM'000	
		Share capital RM'000	Share premium RM'000	Hedging reserve RM'000		
<b>At 1 January 2009</b>		234,500	33,000	(2,814)	251,069	515,755
Cash flow hedge		–	–	2,705	–	2,705
Defined benefit plan actuarial gains		–	–	–	1,776	1,776
Total other comprehensive income for the year		–	–	2,705	1,776	4,481
Profit for the year		–	–	–	351,793	351,793
Total comprehensive income for the year		–	–	2,705	353,569	356,274
Dividends paid to owners of the Company	19	–	–	–	(304,850)	(304,850)
<b>At 31 December 2009/1 January 2010</b>		<b>234,500</b>	<b>33,000</b>	<b>(109)</b>	<b>299,788</b>	<b>567,179</b>
Cash flow hedge		–	–	4,125	–	4,125
Defined benefit plan actuarial gains		–	–	–	2,384	2,384
Total other comprehensive income for the year		–	–	4,125	2,384	6,509
Profit for the year		–	–	–	391,398	391,398
Total comprehensive income for the year		–	–	4,125	393,782	397,907
Dividends paid to owners of the Company	19	–	–	–	(351,750)	(351,750)
<b>At 31 December 2010</b>		<b>234,500</b>	<b>33,000</b>	<b>4,016</b>	<b>341,820</b>	<b>613,336</b>

The notes on pages 16 to 55 are an integral part of these financial statements.

# Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

Company	Note	Attributable to owners of the Company			Total equity RM'000
		Non-distributable Share capital RM'000	Share premium RM'000	Distributable Retained earnings RM'000	
<b>At 1 January 2009</b>		234,500	33,000	187,613	455,113
Profit and total comprehensive income for the year		–	–	352,821	352,821
Dividends paid to owners of the Company	19	–	–	(304,850)	(304,850)
<b>At 31 December 2009/1 January 2010</b>		<b>234,500</b>	<b>33,000</b>	<b>235,584</b>	<b>503,084</b>
Profit and total comprehensive income for the year		–	–	<b>386,647</b>	<b>386,647</b>
Dividends paid to owners of the Company	19	–	–	<b>(351,750)</b>	<b>(351,750)</b>
<b>At 31 December 2010</b>		<b>234,500</b>	<b>33,000</b>	<b>270,481</b>	<b>537,981</b>

The notes on pages 16 to 55 are an integral part of these financial statements.

# Statements of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 RM'000	Group 2009 RM'000	2010 RM'000	Company 2009 RM'000
<b>Cash flows from operating activities</b>					
Profit before tax		<b>465,744</b>	440,261	<b>385,045</b>	355,304
<i>Adjustments for:</i>					
Depreciation on property, plant and equipment	3	<b>101,112</b>	87,952	-	-
Dividend income		-	-	<b>(383,815)</b>	(355,635)
Expenses related to defined benefit plans	14	<b>19,755</b>	12,608	-	-
Finance costs		<b>21,669</b>	21,123	-	11,755
Finance income		<b>(35)</b>	(35)	<b>(2,730)</b>	(12,631)
Impairment loss on property, plant and equipment	3	<b>1,509</b>	-	-	-
Loss on disposal of property, plant and equipment	14	<b>1,478</b>	3,270	-	-
Property, plant and equipment written off	14	<b>481</b>	1,227	-	-
Share-based payments	14	<b>4,556</b>	6,072	-	-
Share of loss/(profit) of an equity accounted associate, net of tax		<b>113</b>	(360)	-	-
Operating profit/(loss) before changes in working capital		<b>616,382</b>	572,118	<b>(1,500)</b>	(1,207)
Change in inventories		<b>(26,158)</b>	105,108	-	-
Change in payables and accruals		<b>(4,049)</b>	19,843	<b>335</b>	(655,297)
Change in receivables, deposits and prepayments		<b>22,422</b>	36,769	<b>(33,267)</b>	559,311
Cash generated from/(used in) operations		<b>608,597</b>	733,838	<b>(34,432)</b>	(97,193)
Dividends received from subsidiaries		-	-	<b>383,650</b>	355,500
Dividend from pre-acquisition profit of a subsidiary		-	-	-	44,970
Employee benefits paid		<b>(22,450)</b>	(16,527)	-	-
Income tax paid		<b>(84,019)</b>	(81,794)	<b>(363)</b>	(480)
Income tax refunded		<b>6,798</b>	-	-	-
<b>Net cash from operating activities</b>		<b>508,926</b>	635,517	<b>348,855</b>	302,797
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	(ii)	<b>(143,915)</b>	(257,131)	-	-
Finance income received		<b>35</b>	35	<b>2,730</b>	12,631
Dividend received from an associate		<b>165</b>	135	<b>165</b>	135
Proceeds from disposal of property, plant and equipment		<b>3,327</b>	690	-	-
Proceeds from capital distribution from a subsidiary		-	-	-	100,000
Increase in investment of a subsidiary		-	-	-	(100,000)
<b>Net cash (used in)/from investing activities</b>		<b>(140,388)</b>	(256,271)	<b>2,895</b>	12,766



## Statements of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 RM'000	Group 2009 RM'000	2010 RM'000	Company 2009 RM'000
<b>Cash flows from financing activities</b>					
Dividends paid to owners of the Company	19	(351,750)	(304,850)	(351,750)	(304,850)
Finance costs paid		(21,669)	(21,123)	–	(11,755)
Payment of finance lease liabilities		(3,453)	(3,316)	–	–
Proceeds from borrowings		58,000	47,500	–	–
Repayment of borrowings		(47,500)	(103,000)	–	–
<b>Net cash used in financing activities</b>		<b>(366,372)</b>	<b>(384,789)</b>	<b>(351,750)</b>	<b>(316,605)</b>
Net increase/(decrease) in cash and cash equivalents		2,166	(5,543)	–	(1,042)
Cash and cash equivalents at 1 January	(i)	20,147	25,690	–	1,042
<b>Cash and cash equivalents at 31 December</b>	(i)	<b>22,313</b>	<b>20,147</b>	<b>–</b>	<b>–</b>

i) *Cash and cash equivalents*

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

	Note	2010 RM'000	Group 2009 RM'000	2010 RM'000	Company 2009 RM'000
Cash and bank balances		48,683	25,751	–	–
Bank overdraft	11	(26,370)	(5,604)	–	–
		<b>22,313</b>	<b>20,147</b>	<b>–</b>	<b>–</b>

ii) *Acquisition of property, plant and equipment*

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM145,159,000 (2009 - RM266,933,000), of which RM1,244,000 (2009 - RM9,802,000) were acquired by means of finance leases.

The notes on pages 16 to 55 are an integral part of these financial statements.

# Notes to the Financial Statements

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

22-1, 22<sup>nd</sup> 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 year ended 31 December 2010 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 year ended 31 December 2010 do not include other entities.

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

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

The financial statements were authorised for issue by the Board of Directors on 24 February 2011.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

The Group and the Company have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Company:

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010**

- Amendments to FRS 132, *Financial Instruments: Presentation – Classification of Rights Issues*

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010**

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distributions of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

## 1. BASIS OF PREPARATION (CONTINUED)

### (a) Statement of compliance (continued)

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011**

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
  - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
  - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- Amendments to FRS 2, *Group Cash-settled Share-based Payment Transactions*
- IC Interpretation 4, *Determining whether an Arrangement contains a Lease*
- IC Interpretation 18, *Transfers of Assets from Customers*
- Improvements to FRSs (2010)

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011**

- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012**

- FRS 124, *Related Party Disclosures* (revised)
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 or 1 January 2011, except for IC Interpretation 12, 16 and 17 which are not applicable to the Group and the Company.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

Following the announcement by the MASB on 1 August 2008, the Group and the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards (IFRS) framework for annual periods beginning on 1 January 2012. The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

## Notes to the Financial Statements

### 1. BASIS OF PREPARATION (CONTINUED)

#### (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 presented in RM has been rounded to the nearest thousand, unless otherwise stated.

#### (d) Use of estimates and judgements

The preparation of financial statements in conformity with FRSs 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 the 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, except as disclosed in the following notes:

- Note 2 (m) - Borrowing costs
- Note 2 (p) - Operating segments

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is held for sale.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

#### (ii) Associates

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

Investment in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or included in a disposal group that is classified as held for sale. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted 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 equity accounted associate, the carrying amount of that interest including any long-term investments is reduced to nil 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 investee.

Investments in associates are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale.

#### (iii) 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 investees are eliminated against the investment to the extent of the Group's interest in the investee. 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 currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

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

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments

##### (i) Initial recognition and measurement

A financial instrument is recognised in the financial statements 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 trade and other receivables and cash and cash equivalents.

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

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

## 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 held for trading, derivatives (except for 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 other comprehensive income 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 expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

## Notes to the Financial Statements

### 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 are 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 other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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.

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

##### (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced parts 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.



## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment (continued)

#### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

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

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period.

### (e) Leased assets

#### (i) Finance lease

Leases in terms of which the Group or the Company assume substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition of 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.

#### (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 as an integral part of the total lease expense, over the term of the lease.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Goodwill

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

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Goodwill are not amortised but are tested for impairment annually and whenever there is an indication that they may 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 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 in hand, balances with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy note 2(c).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment

#### (i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in 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. The carrying amount of the asset is reduced through the use of an allowance account.

#### (ii) Other assets

The carrying amounts of other assets (except for inventories 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 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 groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to 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 to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its 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 units and then to reduce the carrying amount of the other assets in the unit (groups of 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 each reporting date 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 year in which the reversals are recognised.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Employee benefits

##### (i) Short term employee benefits

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

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

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

##### (ii) Defined benefit plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the end of the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income.

##### (iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

##### (iv) Share-based payment transactions *Restricted Stock Unit Plan ("RSUP")*

Certain employees of the Group are entitled to RSUP that gives the right to Nestlé S.A. share. The grant date fair value of the RSUP granted to these employees is recharged to the Group and is recognised as an employee expense in profit or loss.

## 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 and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

### (l) Revenue and other income

#### (i) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and trade rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, 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.

#### (ii) Dividend income

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

#### (iii) Interest income

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

### (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.

Before 1 January 2010, all borrowing costs were recognised in profit or loss using the effective interest method in the period in which they are incurred.

Following the adoption of FRS 123, *Borrowing Costs*, 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 ceases 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Income tax

Income tax comprises current and deferred tax. Income tax expense is 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 on the taxable income 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 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 apply 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.

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.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

Unutilised reinvestment allowance and investment tax allowance are treated as tax base of assets and are recognised as a reduction of tax expense as and when they are utilised.

#### (o) Earnings per share

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

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.

#### (p) Operating segments

In the previous years, a segment was a distinguishable component of the Group that was engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) which was subject to risks and rewards that were different from those of other segments.

Following the adoption of FRS 8, *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. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Executive Board of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in- progress RM'000	Total RM'000
<b>Cost</b>							
<b>At 1 January 2009</b>	58,317	283,802	1,221,819	17,360	63,216	21,642	1,666,156
Additions	–	30,120	208,056	1,442	15,495	11,820	266,933
Disposals	–	–	(9,480)	(1,251)	(75)	–	(10,806)
Written off	–	(72)	(35,120)	–	(4,871)	–	(40,063)
Transfer in/(out)	–	4,554	16,681	–	407	(21,642)	–
<b>At 31 December 2009/1 January 2010</b>	<b>58,317</b>	<b>318,404</b>	<b>1,401,956</b>	<b>17,551</b>	<b>74,172</b>	<b>11,820</b>	<b>1,882,220</b>
Additions	<b>37,172</b>	<b>15,837</b>	<b>73,454</b>	<b>2,317</b>	<b>6,825</b>	<b>9,554</b>	<b>145,159</b>
Disposals	–	–	<b>(6,821)</b>	<b>(1,198)</b>	<b>(221)</b>	–	<b>(8,240)</b>
Written off	–	<b>(11)</b>	<b>(8,922)</b>	–	<b>(2,433)</b>	–	<b>(11,366)</b>
Transfer in/(out)	–	<b>304</b>	<b>11,133</b>	–	<b>383</b>	<b>(11,820)</b>	–
<b>At 31 December 2010</b>	<b>95,489</b>	<b>334,534</b>	<b>1,470,800</b>	<b>18,670</b>	<b>78,726</b>	<b>9,554</b>	<b>2,007,773</b>
<b>Depreciation and impairment loss</b>							
<b>At 1 January 2009:</b>							
Accumulated depreciation	5,384	84,754	811,380	8,512	47,537	–	957,567
Accumulated impairment loss	–	6,284	15,237	465	144	–	22,130
	5,384	91,038	826,617	8,977	47,681	–	979,697
Depreciation for the year	1,035	6,501	71,399	2,210	6,807	–	87,952
Disposals	–	–	(5,638)	(1,176)	(32)	–	(6,846)
Written off	–	(9)	(33,979)	–	(4,848)	–	(38,836)
<b>At 31 December 2009:</b>							
Accumulated depreciation	6,419	91,246	845,072	10,011	49,464	–	1,002,212
Accumulated impairment loss	–	6,284	13,327	–	144	–	19,755
	6,419	97,530	858,399	10,011	49,608	–	1,021,967

## 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
<b>Depreciation and impairment loss</b>							
<b>(continued)</b>							
<b>At 1 January 2010:</b>							
Accumulated depreciation	6,419	91,246	845,072	10,011	49,464	–	1,002,212
Accumulated impairment loss	–	6,284	13,327	–	144	–	19,755
	6,419	97,530	858,399	10,011	49,608	–	1,021,967
Depreciation for the year	1,091	6,975	83,433	2,145	7,468	–	101,112
Impairment loss	–	–	1,506	–	3	–	1,509
Disposals	–	–	(2,060)	(1,198)	(177)	–	(3,435)
Written off	–	(1)	(8,494)	–	(2,390)	–	(10,885)
<b>At 31 December 2010:</b>							
<b>Accumulated depreciation</b>	<b>7,510</b>	<b>98,220</b>	<b>917,951</b>	<b>10,958</b>	<b>54,365</b>	<b>–</b>	<b>1,089,004</b>
<b>Accumulated impairment loss</b>	<b>–</b>	<b>6,284</b>	<b>14,833</b>	<b>–</b>	<b>147</b>	<b>–</b>	<b>21,264</b>
	<b>7,510</b>	<b>104,504</b>	<b>932,784</b>	<b>10,958</b>	<b>54,512</b>	<b>–</b>	<b>1,110,268</b>
<b>Carrying amounts</b>							
<b>At 1 January 2009</b>	52,933	192,764	395,202	8,383	15,535	21,642	686,459
<b>At 31 December 2009/1 January 2010</b>	51,898	220,874	543,557	7,540	24,564	11,820	860,253
<b>At 31 December 2010</b>	<b>87,979</b>	<b>230,030</b>	<b>538,016</b>	<b>7,712</b>	<b>24,214</b>	<b>9,554</b>	<b>897,505</b>

#### **Leased plant and machinery**

At 31 December 2010, the net carrying amount of leased plant and machinery of the Group was RM9,595,000 (2009 - RM11,976,000).

The Group leases production equipment under a number of finance lease agreements. Some 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 11).



#### 4. GOODWILL

	2010 RM'000	Group 2009 RM'000
<b>Cost / Carrying amounts</b>		
<b>At 1 January/31 December</b>	<b>61,024</b>	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 its 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 an 8-year business plan.
- The anticipated annual growth rate is estimated to be 5% to 6%.
- The unit will continue its operations indefinitely.
- A discount rate of 7.2% (2009 - 6.5%) 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

	2010 RM'000	Company 2009 RM'000
<b>At cost:</b>		
<b>Unquoted shares</b>		
At 1 January	<b>188,022</b>	232,992
Add: Subscription of additional shares in a subsidiary	-	100,000
Less: Capital distribution from a subsidiary	-	(100,000)
Dividend from pre-acquisition profit of a subsidiary	-	(44,970)
<b>At 31 December</b>	<b>188,022</b>	188,022

## Notes to the Financial Statements

### 5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2010 %	2009 %
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
Nestlé Cold Storage (Sabah) Sdn. Bhd.	Malaysia	Inactive	– **	100*
SNF Sdn. Bhd.	Malaysia	Inactive	– **	100

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

\*\* Struck-off during the financial year

**6. INVESTMENT IN AN ASSOCIATE**

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost:				
Unquoted shares	<b>3,000</b>	3,000	<b>3,000</b>	3,000
Share of post-acquisition reserves	<b>189</b>	467	–	–
	<b>3,189</b>	3,467	<b>3,000</b>	3,000

**Summary financial information for associate, not adjusted for percentage ownership held by the Group:**

	Country of incorporation	Effective ownership interest %	Revenue (100%) RM'000	(Loss)/ Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
<b>2010</b>						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	<b>20</b>	<b>107,586</b>	<b>(565)</b>	<b>67,329</b>	<b>51,381</b>
<b>2009</b>						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	20	95,472	1,802	67,082	49,672

**7. DEFERRED TAX ASSETS/(LIABILITIES)****Recognised deferred tax assets/(liabilities)**

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Property, plant and equipment	–	–	<b>(87,509)</b>	(83,877)	<b>(87,509)</b>	(83,877)
Employee benefit plans	<b>10,634</b>	12,103	–	–	<b>10,634</b>	12,103
Provisions	<b>13,060</b>	8,808	–	–	<b>13,060</b>	8,808
Hedging reserve	–	36	<b>(1,339)</b>	–	<b>(1,339)</b>	36
Tax assets/(liabilities)	<b>23,694</b>	20,947	<b>(88,848)</b>	(83,877)	<b>(65,154)</b>	(62,930)
Set off of tax	<b>(13,253)</b>	(13,568)	<b>13,253</b>	13,568	–	–
Net tax assets/(liabilities)	<b>10,441</b>	7,379	<b>(75,595)</b>	(70,309)	<b>(65,154)</b>	(62,930)

## Notes to the Financial Statements

### 7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

#### Movement in temporary differences during the year

Group	At	Recognised	Recognised	At	Recognised	Recognised	At
	1.1.2009 RM'000	in profit or loss (note 16) RM'000	in other comprehensive income (note 17) RM'000	31.12.2009/ 1.1.2010 RM'000	in profit or loss (note 16) RM'000	in other comprehensive income (note 17) RM'000	31.12.2010 RM'000
Property, plant and equipment	72,479	11,398	–	<b>83,877</b>	<b>3,632</b>	–	<b>87,509</b>
Employee benefit plans	(13,674)	979	592	<b>(12,103)</b>	<b>674</b>	<b>795</b>	<b>(10,634)</b>
Provisions	(5,046)	(3,762)	–	<b>(8,808)</b>	<b>(4,252)</b>	–	<b>(13,060)</b>
Hedging reserve	(938)	–	902	<b>(36)</b>	–	<b>1,375</b>	<b>1,339</b>
	52,821	8,615	1,494	<b>62,930</b>	<b>54</b>	<b>2,170</b>	<b>65,154</b>

Subject to agreement by the Inland Revenue Board, the Group has unutilised reinvestment allowance of RM4,700,000 (2009 - RM10,389,000) and investment tax allowance of RM137,759,000 (2009 - RM228,881,000).

### 8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

Note	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Non-current</b>				
Loans to employees	<b>22,653</b>	22,923	–	–
<b>Current</b>				
<b>Trade</b>				
Trade receivables	<b>162,666</b>	196,264	–	–
Less: Impairment loss on trade receivables	<b>(6,966)</b>	(10,700)	–	–
	<b>155,700</b>	185,564	–	–
Amounts due from related companies	<b>121,175</b>	118,677	–	–
Amount due from an associate	<b>11,311</b>	7,291	–	–
Designated as hedging instruments:				
- Commodity futures	<b>2,386</b>	465	–	–
- Foreign exchange contracts	<b>3,965</b>	1,706	–	–
	<b>294,537</b>	313,703	–	–

**8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Non-trade</b>					
Amounts due from subsidiaries		–	–	<b>347,624</b>	314,194
Amounts due from related companies		<b>7,580</b>	2,946	–	–
Other receivables, deposits and prepayments	8.1	<b>52,186</b>	53,772	<b>119</b>	282
		<b>59,766</b>	56,718	<b>347,743</b>	314,476
		<b>354,303</b>	370,421	<b>347,743</b>	314,476
Total		<b>376,956</b>	393,344	<b>347,743</b>	314,476

**8.1 Other receivables, deposits and prepayments**

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM9,155,000 (2009 - RM9,621,000) which are unsecured and interest free and downpayment to vendors of RM4,804,000 (2009 – RM6,842,000).

**9. INVENTORIES**

	Group	
	2010 RM'000	2009 RM'000
Raw and packaging materials	<b>144,263</b>	122,105
Work-in-progress	<b>16,558</b>	23,789
Finished goods	<b>202,828</b>	189,095
Spare parts	<b>16,890</b>	19,392
	<b>380,539</b>	354,381

**10. CAPITAL AND RESERVES****Share capital**

	Group and Company			
	Amount 2010 RM'000	Number of shares 2010 '000	Amount 2009 RM'000	Number of shares 2009 '000
Authorised:				
Ordinary shares of RM1 each	<b>300,000</b>	<b>300,000</b>	300,000	300,000
Issued and fully paid:				
Ordinary shares of RM1 each	<b>234,500</b>	<b>234,500</b>	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.

## Notes to the Financial Statements

### 10. CAPITAL AND RESERVES (CONTINUED)

#### Share premium

Share premium relates to the amount that equity holders 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 hedging instruments related to hedged transactions that have not yet occurred.

### 11. LOANS AND BORROWINGS

	Note	2010 RM'000	Group 2009 RM'000
<b>Non-current</b>			
Loan from a related company - unsecured		<b>319,264</b>	319,264
Finance lease liabilities	11.1	<b>7,034</b>	8,775
		<b>326,298</b>	328,039
<b>Current</b>			
Revolving credit - unsecured		<b>58,000</b>	47,500
Finance lease liabilities	11.1	<b>2,886</b>	3,354
Bank overdraft - unsecured		<b>26,370</b>	5,604
		<b>87,256</b>	56,458
		<b>413,554</b>	384,497

#### 11.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	2010			2009		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	<b>3,402</b>	<b>516</b>	<b>2,886</b>	4,046	692	3,354
Between one and five years	<b>7,676</b>	<b>642</b>	<b>7,034</b>	9,768	993	8,775
	<b>11,078</b>	<b>1,158</b>	<b>9,920</b>	13,814	1,685	12,129

The Group leases certain plant and machinery amounting to RM18,698,000 (2009 - RM17,454,000) under finance leases expiring from 2011 to 2015. At the end of the lease term, the Group has the option to purchase the asset at RM1, a price deemed to be a bargain purchase option.

**12. EMPLOYEE BENEFITS****Retirement benefits**

	2010 RM'000	Group 2009 RM'000
Present value of funded obligations	<b>225,253</b>	200,417
Fair value of plan assets	<b>(182,716)</b>	(152,006)
Recognised liability for defined benefit obligations	<b>42,537</b>	48,411

The Group operates a defined benefit scheme which is administered by Nestlé Malaysia Group Retirement Scheme. Prior to 1 November 2007, the Scheme covers only full time permanent and confirmed local employees of the Group. Following an amendment to the rules of the Scheme on 1 November 2007, the Scheme is extended to cover expatriate management employees as from 1 November 2007. A prior amendment to the rules of the Scheme on 6 April 2005 results in the deferment of retirement age to 60 years old for new hires employed as from 1 January 2005.

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.

**Plan assets comprise:**

	2010 RM'000	Group 2009 RM'000
Quoted investments	<b>159,131</b>	124,651
Unquoted investments	<b>10,489</b>	10,434
Cash and cash equivalents	<b>5,814</b>	10,467
Others	<b>7,282</b>	6,454
	<b>182,716</b>	152,006

## Notes to the Financial Statements

### 12. EMPLOYEE BENEFITS (CONTINUED)

#### Retirement benefits (continued)

##### Movements in the present value of the defined benefit obligations

	2010 RM'000	Group 2009 RM'000
Defined benefit obligations at 1 January	200,417	188,217
Benefits paid by the plan	(13,027)	(13,488)
Current service costs and interest	23,917	21,941
Past service costs	5,965	–
Actuarial losses recognised	7,905	3,747
Others	76	–
Defined benefit obligations at 31 December	<b>225,253</b>	200,417

##### Movements in the fair value of plan assets

	2010 RM'000	Group 2009 RM'000
Fair value of plan assets at 1 January	152,006	133,519
Contributions paid into the plan	22,450	16,527
Benefits paid by the plan	(13,027)	(13,488)
Expected return on plan assets	10,127	9,333
Actuarial gains recognised	11,084	6,115
Others	76	–
Fair value of plan assets at 31 December	<b>182,716</b>	152,006

##### Expense recognised in profit or loss

	Note	2010 RM'000	Group 2009 RM'000
Current service costs		10,401	9,221
Past service costs		5,965	–
Interest on obligation		13,516	12,720
Expected return on plan assets		(10,127)	(9,333)
	14	<b>19,755</b>	12,608



**12. EMPLOYEE BENEFITS (CONTINUED)****Retirement benefits (continued)****Expense recognised in profit or loss (continued)**

The expense is recognised in the following line items in the statement of comprehensive income:

	Note	2010 RM'000	Group 2009 RM'000
Cost of goods sold		<b>8,045</b>	5,210
Distribution and selling expenses		<b>8,635</b>	5,305
Administrative expenses		<b>3,075</b>	2,093
	14	<b>19,755</b>	12,608
Actual return on plan assets		<b>21,211</b>	15,448

**Actuarial gains and losses recognised directly in other comprehensive income**

	2010 RM'000	Group 2009 RM'000
Cumulative amount at 1 January	<b>(8,785)</b>	(11,153)
Recognised during the year	<b>3,179</b>	2,368
Cumulative amount at 31 December	<b>(5,606)</b>	(8,785)

**Actuarial assumptions**

Principal actuarial assumptions at the reporting date:

	2010	Group 2009
Discount rate	<b>6.75%</b>	7.00%
Expected return on plan assets	<b>7.00%</b>	7.00%
Future salary increases	<b>5.50%</b>	5.50%

Assumptions regarding future mortality are based on published statistics and mortality tables.

The overall expected long-term rate of return on assets is 7.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

## Notes to the Financial Statements

### 12. EMPLOYEE BENEFITS (CONTINUED)

#### Retirement benefits (continued)

##### Historical information

Group	2010 RM'000	2009 RM'000	2008 RM'000	2007 RM'000	2006 RM'000
Present value of the defined benefit obligation	<b>225,253</b>	200,417	188,217	173,162	159,686
Fair value of plan assets	<b>(182,716)</b>	(152,006)	(133,519)	(132,841)	(95,409)
Deficit in the plan	<b>42,537</b>	48,411	54,698	40,321	64,277
Experience adjustments arising on plan liabilities	<b>(7,905)</b>	(3,747)	(6,161)	(1,683)	3,342
Experience adjustments arising on plan assets	<b>11,084</b>	6,115	(11,118)	14,715	1,462

The Group expects to pay RM14,294,000 in contributions to defined benefit plans in 2011.

### 13. PAYABLES AND ACCRUALS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Trade</b>				
Trade payables	<b>420,553</b>	429,338	-	-
Amounts due to related companies	<b>31,902</b>	36,287	-	-
Amount due to an associate	<b>6,737</b>	5,645	-	-
Designated as hedging instrument:				
– Commodity futures	<b>393</b>	1,325	-	-
– Foreign exchange contracts	<b>939</b>	1,059	-	-
	<b>460,524</b>	473,654	-	-
<b>Non-trade</b>				
Amounts due to related companies	<b>19,774</b>	22,114	-	-
Other payables	<b>32,367</b>	35,974	<b>38</b>	232
Accrued expenses	<b>110,604</b>	90,486	<b>766</b>	237
	<b>162,745</b>	148,574	<b>804</b>	469
	<b>623,269</b>	622,228	<b>804</b>	469

## 14. RESULTS FROM OPERATING ACTIVITIES

	Note	Group 2010 RM'000	2009 RM'000	Company 2010 RM'000	2009 RM'000
<b>Results from operating activities</b>					
<b>is arrived at after charging:</b>					
Auditors' remuneration:					
– Statutory audit		<b>425</b>	425	<b>106</b>	106
– Other services		<b>178</b>	141	<b>178</b>	141
Depreciation of property, plant and equipment	3	<b>101,112</b>	87,952	–	–
Impairment loss on property, plant and equipment	3	<b>1,509</b>	–	–	–
Impairment loss on trade receivables		–	3,433	–	–
Loss on disposal of property, plant and equipment		<b>1,478</b>	3,270	–	–
Net foreign exchange loss:					
– unrealised		<b>962</b>	–	–	–
Personnel expenses (including key management personnel):					
– Contributions to Employees Provident Fund		<b>26,820</b>	27,505	–	–
– Expenses related to defined benefit plans	12	<b>19,755</b>	12,608	–	–
– Share-based payments		<b>4,556</b>	6,072	–	–
– Wages, salaries and others		<b>353,949</b>	347,760	–	–
Property, plant and equipment written off		<b>481</b>	1,227	–	–
Rental expenses on land and buildings		<b>49,955</b>	42,864	–	–
<b>and after crediting:</b>					
Dividend income from:					
– Subsidiaries (unquoted)		–	–	<b>383,650</b>	355,500
– An associate (unquoted)		<b>165</b>	135	<b>165</b>	135
Net foreign exchange gain:					
– realised		<b>3,781</b>	2,648	–	–
– unrealised		–	435	–	–
Reversal of impairment loss on trade receivables		<b>2,012</b>	–	–	–

## Notes to the Financial Statements

### 15. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Directors:				
– Fees	220	220	220	220
– Remuneration	4,489	4,841	–	–
– Other short term employee benefits (including estimated monetary value of benefits-in-kind)	1,083	1,027	50	50
Total short-term employee benefits	5,792	6,088	270	270
– Post-employment benefits	516	260	–	–
– Share-based payments	1,586	1,944	–	–
	<b>7,894</b>	8,292	<b>270</b>	270
Other key management personnel:				
– Short-term employee benefits	6,242	6,202	–	–
– Post-employment benefits	239	142	–	–
– Share-based payments	2,059	3,098	–	–
	<b>8,540</b>	9,442	–	–
	<b>16,434</b>	17,734	<b>270</b>	270

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.

**16. INCOME TAX EXPENSE****Recognised in the profit or loss**

	Note	Group 2010 RM'000	2009 RM'000	Company 2010 RM'000	2009 RM'000
Income tax expense		<b>74,346</b>	88,468	<b>(1,602)</b>	2,483

Major components of income tax expense include:

**Current tax expense**

Malaysian – current year		<b>76,691</b>	83,728	<b>680</b>	2,499
– prior year		<b>(2,399)</b>	(3,875)	<b>(2,282)</b>	(16)
Total current tax recognised in the profit or loss		<b>74,292</b>	79,853	<b>(1,602)</b>	2,483

**Deferred tax expense**

Origination of temporary differences		<b>909</b>	10,670	–	–
Over provided in prior years		<b>(855)</b>	(2,055)	–	–
Total deferred tax recognised in the profit or loss	7	<b>54</b>	8,615	–	–
Total income tax expense		<b>74,346</b>	88,468	<b>(1,602)</b>	2,483

**Reconciliation of tax expense**

Profit for the year		<b>391,398</b>	351,793	<b>386,647</b>	352,821
Total income tax expense		<b>74,346</b>	88,468	<b>(1,602)</b>	2,483
Profit excluding tax		<b>465,744</b>	440,261	<b>385,045</b>	355,304
Income tax calculated using Malaysian tax rate of 25%		<b>116,436</b>	110,065	<b>96,261</b>	88,826
Non-deductible expenses		<b>2,420</b>	6,471	<b>373</b>	2,582
Tax exempt income		–	–	<b>(95,954)</b>	(88,909)
Tax incentives		<b>(42,781)</b>	(22,486)	–	–
Other items		<b>1,525</b>	348	–	–
Over provided in prior years		<b>(3,254)</b>	(5,930)	<b>(2,282)</b>	(16)
		<b>74,346</b>	88,468	<b>(1,602)</b>	2,483

## Notes to the Financial Statements

### 17. OTHER COMPREHENSIVE INCOME

Group	Before tax RM'000	2010 Tax expense RM'000	Net of tax RM'000	Before tax RM'000	2009 Tax expense RM'000	Net of tax RM'000
Cash flow hedge						
– Gains/(Losses) arising during the year	31,429	(7,857)	23,572	(12,301)	3,075	(9,226)
– Reclassification adjustments for (losses)/gains included in profit or loss	(25,929)	6,482	(19,447)	15,908	(3,977)	11,931
	5,500	(1,375)	4,125	3,607	(902)	2,705
Defined benefit plan actuarial gains	3,179	(795)	2,384	2,368	(592)	1,776
	8,679	(2,170)	6,509	5,975	(1,494)	4,481

### 18. EARNINGS PER ORDINARY SHARE

#### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2010 was based on the profit attributable to ordinary shareholders of RM391.4 million (2009 - RM351.8 million) and 234.5 million (2009 - 234.5 million) ordinary shares outstanding during the year.

### 19. DIVIDENDS

Dividends recognised in the current year by the Company are:

	Sen per share	Total amount RM'000	Date of payment
<b>2010</b>			
Interim 2010 ordinary			
– Tax exempt (single-tier)	50	117,250	5 October 2010
Final 2009 ordinary			
– Tax exempt (single-tier)	100	234,500	26 May 2010
Total amount		351,750	
<b>2009</b>			
Interim 2009 ordinary			
– Tax exempt (single-tier)	50	117,250	8 October 2009
Final 2008 ordinary			
– Tax exempt (single-tier)	80	187,600	28 May 2009
Total amount		304,850	

### 19. DIVIDENDS (CONTINUED)

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

	Sen per share	Total amount RM'000
Final ordinary		
Tax exempt (single-tier)	115	269,675

### 20. 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 earnings before interest and tax, 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 earnings before interest and tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments that operate within the Group.

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

	Food and beverages		Others		Total	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Revenue and results</b>						
Revenue	<b>3,347,644</b>	3,083,941	<b>678,675</b>	660,292	<b>4,026,319</b>	3,744,233
Earnings before interest and tax	<b>393,490</b>	350,385	<b>103,465</b>	118,908	<b>496,955</b>	469,293

Included in the measure of segment earnings  
before interest and tax are:

Depreciation on property, plant and equipment	<b>87,807</b>	81,566	<b>13,305</b>	6,386	<b>101,112</b>	87,952
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#### Reconciliations of reportable segment profit or loss

	2010 RM'000	2009 RM'000
<b>Profit or loss</b>		
Total profit for reportable segments	<b>496,955</b>	469,293
Finance costs	<b>(21,669)</b>	(21,123)
Finance income	<b>35</b>	35
Other unallocated expenses	<b>(9,464)</b>	(8,304)
Share of (loss)/profit of an associate not included in reportable segments	<b>(113)</b>	360
Consolidated profit before tax	<b>465,744</b>	440,261

## Notes to the Financial Statements

### 21. FINANCIAL INSTRUMENTS

Certain comparative figures have not been presented for 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7.

#### 21.1 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
<b>2010</b>			
<b>Financial assets</b>			
<b>Group</b>			
Trade and other receivables	368,527	362,176	6,351
Cash and cash equivalents	48,683	48,683	-
	<b>417,210</b>	<b>410,859</b>	<b>6,351</b>
<b>Company</b>			
Trade and other receivables	347,743	347,743	-
<b>Financial liabilities</b>			
<b>Group</b>			
Loans and borrowings	(413,554)	(413,554)	-
Payables and accruals	(623,269)	(621,937)	(1,332)
	<b>(1,036,823)</b>	<b>(1,035,491)</b>	<b>(1,332)</b>
<b>Company</b>			
Payables and accruals	(804)	(804)	-

#### 21.2 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

#### 21.3 Credit risk

Credit risk is the risk of a financial loss to the Group 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 amount due from related companies.



**21. FINANCIAL INSTRUMENTS (CONTINUED)****21.3 Credit risk (continued)****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 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 RM72,485,000.

***Impairment losses***

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

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
<b>2010</b>			
Not past due	137,059	–	137,059
Past due 0-30 days	12,792	–	12,792
Past due 31-120 days	3,395	–	3,395
Past due more than 120 days	9,420	(6,966)	2,454
	<b>162,666</b>	<b>(6,966)</b>	<b>155,700</b>

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

Group	2010 RM'000	2009 RM'000
At 1 January	10,700	9,018
Impairment loss recognised	2,420	3,509
Impairment loss reversed	(4,432)	(76)
Impairment loss written off	(1,722)	(1,751)
At 31 December	<b>6,966</b>	10,700

## Notes to the Financial Statements

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### 21.3 Credit risk (continued)

##### Receivables (continued)

##### Impairment losses (continued)

Impairment losses as at 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 prosecutions.

Based on the historic trend and expected performance of the customers, the Group is confident that the above allowance for impairment losses sufficiently covers the risk of default.

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

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

#### 21.4 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.

##### Maturity analysis

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

Group	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
<b>2010</b>						
<b>Non-derivative financial liabilities</b>						
Finance lease liabilities	9,920	5.00%	11,078	3,402	2,766	4,910
Revolving credit – unsecured	58,000	3.47% – 3.50%	58,000	58,000	–	–
Bank overdrafts	26,370	7.30%	26,370	26,370	–	–
Loans from a related company	319,264	3.05% – 3.74%	319,264	–	319,264	–
Payables and accruals, excluding derivatives	621,937	–	621,937	621,937	–	–
	<b>1,035,491</b>		<b>1,036,649</b>	<b>709,709</b>	<b>322,030</b>	<b>4,910</b>
<b>Derivative financial liabilities/(assets)</b>						
Foreign exchange contracts (gross settled):						
– Outflow	–	–	200,956	200,956	–	–
– Inflow	(3,026)	–	(203,982)	(203,982)	–	–
Commodity futures	(1,993)	–	(1,993)	(1,993)	–	–
	<b>1,030,472</b>		<b>1,031,630</b>	<b>704,690</b>	<b>322,030</b>	<b>4,910</b>

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### 21.5 Market risk

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

#### 21.5.1 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) and Thai Baht (THB).

#### ***Risk management objectives, policies and processes for managing the risk***

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

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 currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

Group	USD RM'000	2010 Denominated in SGD RM'000	THB RM'000
Trade receivables	96	1,540	6,940
Trade payables	(71,316)	(2,929)	(1,283)
Intra-group receivables	115,726	10,511	–
Intra-group payables	(13,929)	(8,380)	–
Commodity futures	1,584	–	–
Exposure in the statement of financial position	32,161	742	5,657
Net contracted foreign exchange contracts	(153,586)	(14,979)	(7,263)
Net exposure	(121,425)	(14,237)	(1,606)

## Notes to the Financial Statements

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### 21.5 Market risk (continued)

##### 21.5.1 Currency risk (continued)

###### ***Currency risk sensitivity analysis***

A 10% strengthening of RM against the following currencies at the end of the reporting period would have increased (decreased) post-tax profit or loss 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	2010 RM'000
USD	12,143
SGD	1,424
THB	161

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

##### 21.5.2 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.

###### ***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 expose through the use of interest rate forwards, futures and swaps.

**21. FINANCIAL INSTRUMENTS (CONTINUED)****21.5 Market risk (continued)****21.5.2 Interest rate risk (continued)*****Exposure to interest rate risk***

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Fixed rate instruments</b>				
Financial liabilities	(9,920)	(12,129)	–	–
<b>Floating rate instruments</b>				
Financial assets	–	–	81,692	80,080
Financial liabilities	(403,634)	(372,368)	–	–
	<b>(403,634)</b>	<b>(372,368)</b>	<b>81,692</b>	<b>80,080</b>

***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) post-tax profit or loss by RM4,036,000 on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**21.5.3 Commodity price risk**

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

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

Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price. The commodity contracts giving rise to this risk are primarily futures contracts and options mainly in U.S. Dollars, British Pound Sterling and Malaysian Ringgit.

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

## Notes to the Financial Statements

### 21. FINANCIAL INSTRUMENTS (CONTINUED)

#### 21.6 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 foreign exchange contracts and commodity futures have the net nominal value of RM175,566,000 (2009 – RM19,345,000) and RM22,993,000 (2009 – RM41,325,000) respectively. The foreign 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 foreign exchange contracts and commodity futures are expected to occur and affect profit or loss:

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
<b>2010</b>			
Foreign exchange contracts	<b>3,026</b>	<b>3,026</b>	<b>3,026</b>
Commodity futures	<b>1,993</b>	<b>1,993</b>	<b>1,993</b>

During the year, a gain of RM23,572,000 (2009 - loss of RM9,226,000) was recognised in the other comprehensive income and RM19,447,000 (2009 - RM11,931,000) was reclassified from equity to profit or loss. Ineffectiveness loss amounting to RM334,000 (2009 - gain of RM65,000) was recognised in profit or loss during the year in respect of the hedge.

#### 21.7 Fair value of financial instruments

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

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Group	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Loans to employees	<b>31,808</b>	<b>29,115</b>	32,544	30,003
Finance lease liabilities	<b>(9,920)</b>	<b>(8,825)</b>	(12,129)	(10,649)
Loan from a related company	<b>(319,264)</b>	<b>(319,264)</b>	(319,264)	(319,264)

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. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

## 22. 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 investor, creditor and market confidence and to sustain future development of the business. There were no changes to the Group's approach to capital management during the year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

## 23. OPERATING LEASES

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2010 RM'000	Group 2009 RM'000
Less than one year	14,997	24,009
Between one and two years	5,486	20,483
	<b>20,483</b>	44,492

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

## 24. CAPITAL AND OTHER COMMITMENTS

	2010 RM'000	Group 2009 RM'000
<b>Capital expenditure commitments</b>		
<b>Plant and equipment</b>		
Authorised but not contracted for	115,784	140,335
Contracted but not provided for		
Within one year	21,085	16,207
	<b>136,869</b>	156,542

## 25. 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.

Key management personnel are 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.

## Notes to the Financial Statements

### 25. RELATED PARTIES (CONTINUED)

#### Identity of related parties (continued)

Group	Note	2010		2009	
		Amount transacted for the year ended 31 December RM'000	Balance outstanding at 31 December RM'000	Amount transacted for the year ended 31 December RM'000	Balance outstanding at 31 December RM'000
<b>Related companies</b>					
Sales of goods and services	a	(843,105)	121,175	(688,755)	118,677
Purchases of goods and services	a	335,400	(22,483)	391,523	(25,914)
Royalties		159,060	(10,622)	152,715	(11,268)
IT shared services		21,376	(5,122)	20,989	(4,848)
Finance costs		11,259	(2,388)	10,415	(1,948)
<b>Company</b>					
<b>Subsidiaries</b>					
Finance income	b	(2,730)	257	(12,604)	89
Finance costs	b	-	-	11,755	-

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

- a Sales to and purchases from related companies are based on normal trade terms. Balances outstanding are unsecured.
- b Loans to and from subsidiaries are unsecured, subject to interest at 2.89% - 3.71% (2009 - 2.79% - 3.61%) per annum and are repayable on demand.

### 26. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

#### 26.1 FRS 8, *Operating Segments*

As of 1 January 2010, the Group determines and presents operating segments based on the information that internally is provided to the Executive Board, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of FRS 8. Previously, the Group does not present segment information as the principal activity of the Group is manufacturing, marketing and sale of food products in Malaysia.

#### 26.2 FRS 101 (revised), *Presentation of Financial Statements*

The Group applies revised FRS 101 (revised) which became effective as of 1 January 2010. As a result, income statements for the year ended 31 December 2009 have been re-presented as statement of comprehensive income. All non-owner changes in equity that were presented in the statement of recognised income and expense are now included in the statement of comprehensive income as other comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard.



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

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and the prescribed format of presentation.

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2010, into realised and unrealised profits, pursuant to the directive, is as follows:

	Group 2010 RM'000	Company 2010 RM'000
Total retained earnings of the Company and its subsidiaries:		
– realised	439,849	270,481
– unrealised	(98,219)	–
	<b>341,630</b>	<b>270,481</b>
Total share of retained earnings of an associate:		
– realised	563	–
– unrealised	(373)	–
Total retained earnings	<b>341,820</b>	<b>270,481</b>

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure 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 10 to 54 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2010 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 to the financial statements have 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:

**Peter Vogt**

**Marc Seiler**

Petaling Jaya,  
24 February 2011

# Statutory Declaration

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **Marc Seiler**, the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 10 to 55 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya on 24 February 2011.

**Marc Seiler**

Before me:

**Faridah Bt. Sulaiman**

*Commissioner of Oaths (No. B228)*

Petaling Jaya

# 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 2010 of the Group and of the Company, and the statements of 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 10 to 54.

### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the directors determine are 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 have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

## 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 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not part of the financial statements. 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*

Petaling Jaya,  
24 February 2011

### **Adrian Lee Lye Wang**

*Approval Number: 2679/11/11(J)*  
*Chartered Accountant*

# Shareholding Statistics

AS AT 24 FEBRUARY 2011

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	:	4,189
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	17,940,600	7.650
Malaysia Nominees (Tempatan) Sendirian Berhad – Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	5,195,710	2.215

## 30 LARGEST SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board	17,940,600	7.650
Malaysia Nominees (Tempatan) Sendirian Berhad – Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	5,195,710	2.215
Valuecap Sdn Bhd	4,450,200	1.897
Kumpulan Wang Persaraan (Diperbadankan)	4,404,500	1.878
Lembaga Tabung Haji	3,666,054	1.563
Employees Provident Fund Board	1,500,000	0.639
Pertubuhan Keselamatan Sosial	1,345,800	0.573
AmanahRaya Trustees Berhad – Public Islamic Dividend Fund	753,000	0.321
Soon Cheong (Malaya) Sdn Berhad	646,698	0.275
Malaysia Nominees (Tempatan) Sendirian Berhad – Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	644,700	0.274
AmanahRaya Trustees Berhad – Amanah Saham Malaysia	566,500	0.241
Kwang Teow Sang Sdn Bhd	560,700	0.239
AmanahRaya Trustees Berhad – Amanah Saham Wawasan 2020	504,400	0.215
AmanahRaya Trustees Berhad – Skim Amanah Saham Bumiputera	500,000	0.213
Cartaban Nominees (Asing) Sdn Bhd – RBC Dexia Investor Services Bank for Vontobel Fund – Emerging Markets Equity	447,900	0.191
Cartaban Nominees (Asing) Sdn Bhd – RBC Dexia Investor Services Bank for Vontobel Fund – Far East Equity	435,600	0.185
Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board (Aberdeen)	386,000	0.164
Woo Khai Yoon	386,000	0.164

**30 LARGEST SHAREHOLDERS (CONTINUED)**

Name	Number of shares held	%
AmanahRaya Trustees Berhad – Public Islamic Equity Fund	379,700	0.161
HSBC Nominees (Asing) Sdn Bhd – BNYM SA/NV for Virtus Emerging Markets Opportunities Fund	368,600	0.157
Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
Kuok Foundation Berhad	304,200	0.129
Mayban Nominees (Tempatan) Sdn Bhd – Etiqa Takaful Berhad (Family Fund)	290,000	0.123
HSBC Nominees (Asing) Sdn Bhd – Exempt an for JPMorgan Chase Bank National Association (Taiwan)	289,400	0.123
Mayban Nominees (Tempatan) Sdn Bhd – Aberdeen Asset Management Sdn Bhd for Kumpulan Wang Persaraan (Diperbadankan) (FD1-280305)	276,000	0.117
Cartaban Nominees (Asing) Sdn Bhd – Exempt an for RBC Dexia Investor Services Trust (Clients Account)	258,500	0.110
HDM Nominees (Tempatan) Sdn Bhd – Nestlé Products Sdn Bhd for Soon Cheong (Malaya) Sdn Bhd	256,000	0.109
Jarrnazz Sdn Bhd	248,000	0.105
HSBC Nominees (Asing) Sdn Bhd – exempt an for BNP Paribas Securities Services (Singapore-SGD)	230,000	0.098

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 – 99	325	7.758	2,806	0.001
100 – 1,000	2,584	61.685	1,762,102	0.752
1,001 – 10,000	973	23.228	3,492,088	1.489
10,001 – 100,000	251	5.992	7,643,008	3.259
100,001 – less than 5% of issued shares	54	1.289	33,382,833	14.236
5% and above of issued shares	2	0.048	188,217,163	80.263
<b>Total</b>	<b>4,189</b>	<b>100.000</b>	<b>234,500,000</b>	<b>100.000</b>

**DIRECTORS' SHAREHOLDINGS**

The Company	Direct Interests (no. of shares) /	% of Issued Capital /	Deemed Interests (no. of shares) /	% of Issued Capital /
Dato' Frits van Dijk	8,000	0.0034	–	–
Dato' Mohd. Rafik bin Shah Mohamad	27,000	0.0115	–	–

# List of Properties Held

AT 31 DECEMBER 2010

Location	Tenure	Age*	Expiry Date	Size (m <sup>2</sup> )	Description	Net Book Value RM'000
1. No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	50	Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069	50,342	Factory	17,574
2. Lot No. 3 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	40	10.6.2070	10,150	Factory	2,063
3. Lot No. 5 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	37	H.S.(D) 97 H.S.(D) 159 7.11.2072	62,596	Factory	6,762
4. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	41	29.1.2070	36,835	Factory & warehouse	12,046
5. Lot Nos. 691-696 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	19	27.6.2049	173,185	Factory	3,290
6. Lot Nos. 3863-3866 and Lot Nos. 687-690 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	19	27.6.2049		Factory	
7. Lot Nos. 3857-3862 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	19	27.6.2049	31,941	Factory	1,543
8. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	19	19.10.2053	25,460	Factory	361
9. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	16	12.10.2054	12,740	Factory	689
10. Plot 46 Bemban Industrial Park Batu Gajah, Perak	Leasehold	13	7.11.2058	157,500	Vacant land	6,535
11. Nos. 75 & 76, Jalan Playar 15/1 40200 Shah Alam Selangor	Leasehold	1	8.9.2066	40,602	Vacant premises	37,116

\* Approximation of age of property in years.





**Nestlé (Malaysia) Berhad** (110925-W)

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