



2011

FINANCIAL
REPORT

100 **Nestlé** di sisimu.
tabun

FINANCIAL CALENDAR

Results

| | | |
|---------|-------------|------------------|
| Interim | - announced | 18 August 2011 |
| Final | - announced | 23 February 2012 |

Dividends

| | | |
|---------|---------------|-------------------|
| Interim | - record date | 14 September 2011 |
| | - paid | 5 October 2011 |
| Final | - record date | 16 May 2012 |
| | - payable | 30 May 2012 |

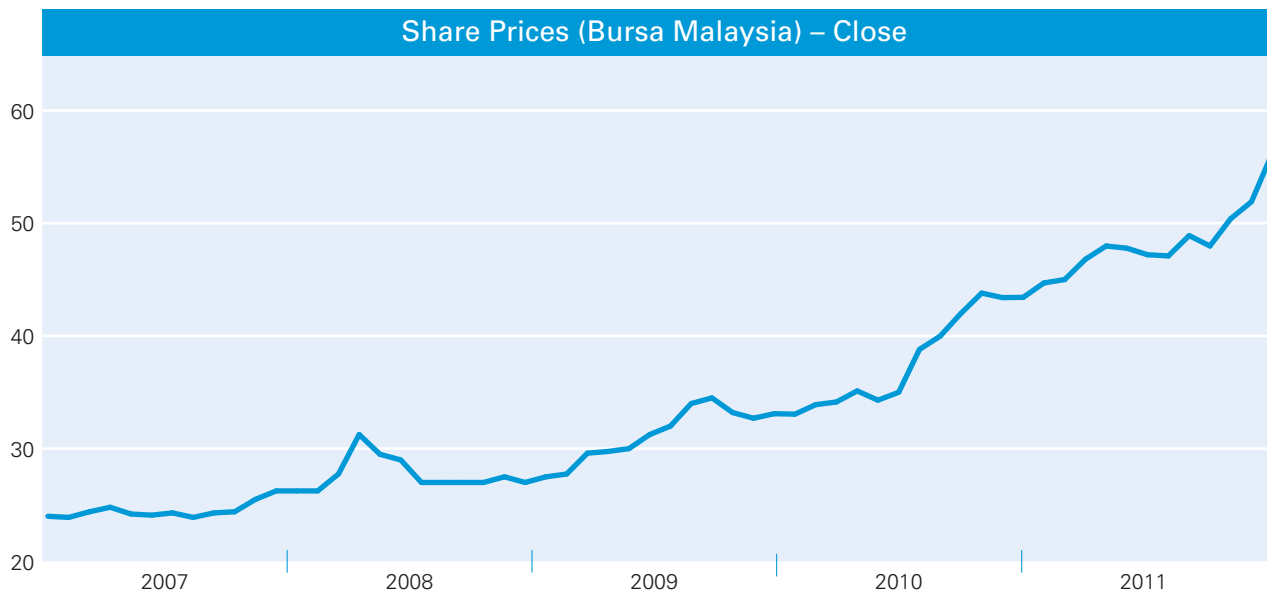
| | |
|-------------------------------|---------------|
| Annual General Meeting | 26 April 2012 |
|-------------------------------|---------------|

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SHARE PERFORMANCE

| | Calendar Year | | | | |
|-----------------|---------------|-------|-------|-------|-------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| During the year | | | | | |
| Highest - RM | 57.00 | 45.00 | 35.68 | 32.00 | 32.00 |
| Lowest - RM | 43.34 | 33.00 | 27.00 | 25.50 | 23.40 |



Based on month-end closing price

GROUP FINANCIAL HIGHLIGHTS

| | | 2011 (RM'000) | 2010 (RM'000) | + / (-) |
|--|-------|------------------|------------------|---------|
| TURNOVER | | 4,700,994 | 4,026,319 | 16.8% |
| EARNINGS / CASH FLOW | | | | |
| Profit before tax | | 558,809 | 465,744 | 20.0% |
| % of turnover | | 11.9% | 11.6% | |
| Profit after tax and minority interest | | 456,301 | 391,398 | 16.6% |
| % of turnover | | 9.7% | 9.7% | |
| Dividends paid & proposed (net) | | 422,100 | 386,925 | 9.1% |
| Depreciation of fixed assets | | 101,894 | 101,112 | |
| Cash flow (net profit + depreciation) | | 558,195 | 492,510 | |
| Capital expenditure | | 93,015 | 143,915 | |
| Shareholders' funds | | 640,860 | 613,336 | |
| PERSONNEL | (no.) | 5,731 | 5,284 | |
| FACTORIES | (no.) | 7 | 7 | |
| PER SHARE | | | | |
| Market price ³ | (RM) | 56.20 | 43.34 | |
| Earnings ¹ | (sen) | 194.58 | 166.91 | |
| Price earnings ratio | | 28.88 | 25.97 | |
| Dividend (net) | (sen) | 180.00 | 165.00 | |
| Dividend yield | (%) | 3.2 | 3.8 | |
| Dividend cover ¹ | (no.) | 1.1 | 1.0 | |
| Shareholders' funds | (RM) | 2.73 | 2.62 | |
| Net tangible assets ² | (RM) | 2.47 | 2.36 | |

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 2011

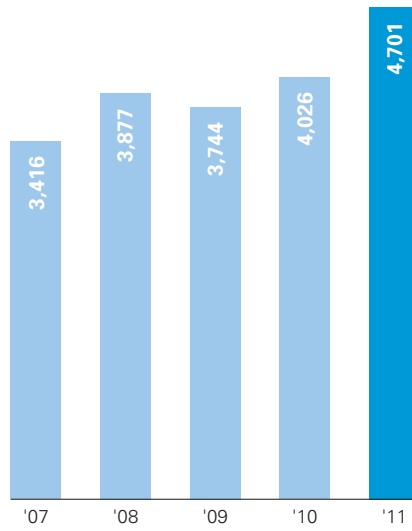
| | 2011 RM'000 | 2010 RM'000 | 2009 RM'000 | 2008 RM'000 | 2007 RM'000 |
|--|---------------------|----------------|----------------|----------------|----------------|
| TURNOVER | 4,700,994 | 4,026,319 | 3,744,233 | 3,877,068 | 3,416,028 |
| EARNINGS / CASH FLOW | | | | | |
| Profit before tax | 558,809 | 465,744 | 440,261 | 441,353 | 395,298 |
| % of turnover | 11.9% | 11.6% | 11.8% | 11.4% | 11.6% |
| Profit after tax and minority interest | 456,301 | 391,398 | 351,793 | 340,887 | 292,042 |
| % of turnover | 9.7% | 9.7% | 9.4% | 8.8% | 8.5% |
| Dividends paid & proposed (net) | 422,100 | 386,925 | 351,750 | 448,341 | 266,889 |
| Depreciation of fixed assets | 101,894 | 101,112 | 87,952 | 75,159 | 72,362 |
| Cash flow (net profit + depreciation + amortisation) | 558,195 | 492,510 | 439,745 | 416,302 | 371,355 |
| % of turnover | 11.9% | 12.2% | 11.7% | 10.7% | 10.9% |
| Capital expenditure | 93,015 | 143,915 | 257,131 | 188,055 | 102,640 |
| EMPLOYMENT OF ASSETS | | | | | |
| Fixed assets (net) | 889,741 | 897,505 | 860,253 | 686,459 | 574,092 |
| Associated company | 3,210 | 3,189 | 3,467 | 3,242 | 3,600 |
| Intangible assets | 61,024 | 61,024 | 61,024 | 61,024 | 61,280 |
| Deferred tax assets | 9,482 | 10,441 | 7,379 | 3,980 | 2,631 |
| Trade and other receivables | 23,802 | 22,653 | 22,923 | 23,814 | 22,194 |
| Net current assets / (liabilities) | 100,324 | 62,954 | 58,892 | (148,575) | 69,592 |
| Total | 1,087,583 | 1,057,766 | 1,013,938 | 629,944 | 733,389 |
| FINANCED BY | | | | | |
| Share capital | 234,500 | 234,500 | 234,500 | 234,500 | 234,500 |
| Reserves | 406,360 | 378,836 | 332,679 | 281,255 | 402,759 |
| Total shareholders' funds | 640,860 | 613,336 | 567,179 | 515,755 | 637,259 |
| Deferred taxation | 66,696 | 75,595 | 70,309 | 56,801 | 50,630 |
| Retirement benefit liabilities | 42,316 | 42,537 | 48,411 | 54,698 | 40,321 |
| Borrowings | 337,711 | 326,298 | 328,039 | 2,690 | 5,179 |
| Total | 1,087,583 | 1,057,766 | 1,013,938 | 629,944 | 733,389 |
| PER SHARE | | | | | |
| Market price ³ | (RM) 56.20 | 43.34 | 33.10 | 27.00 | 26.25 |
| Earnings ¹ | (sen) 194.58 | 166.91 | 150.02 | 145.37 | 124.54 |
| Price earnings ratio | 28.88 | 25.97 | 22.06 | 18.57 | 21.08 |
| Dividend (net) | (sen) 180.00 | 165.00 | 150.00 | 191.19 | 113.81 |
| Dividend yield | (%) 3.2 | 3.8 | 4.5 | 7.1 | 4.3 |
| Dividend cover ¹ | (no.) 1.1 | 1.0 | 1.0 | 0.8 | 1.1 |
| Shareholders' funds | (RM) 2.73 | 2.62 | 2.42 | 2.20 | 2.72 |
| Net tangible assets ² | (RM) 2.47 | 2.36 | 2.16 | 1.94 | 2.46 |
| PERSONNEL | (no.) 5,731 | 5,284 | 5,442 | 5,293 | 4,685 |
| FACTORIES | (no.) 7 | 7 | 7 | 7 | 7 |

Notes :

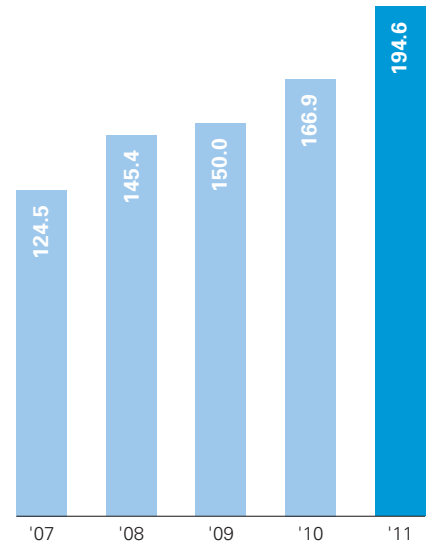
1. Earnings per share and dividend cover are based on profit after tax.
2. Net tangible assets consists of issued share capital plus reserves less intangible assets.
3. The market price represents last done price of the shares quoted on the last trading day of December.

FINANCIAL CHARTS

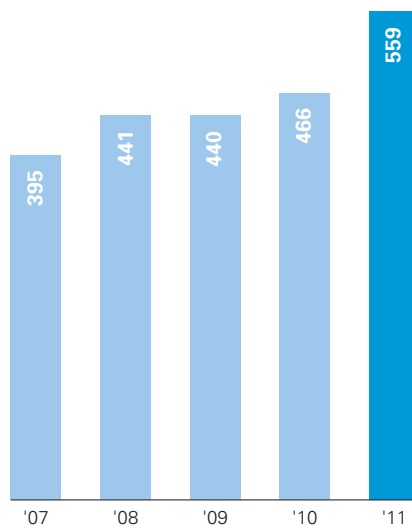
Turnover
(RM million)



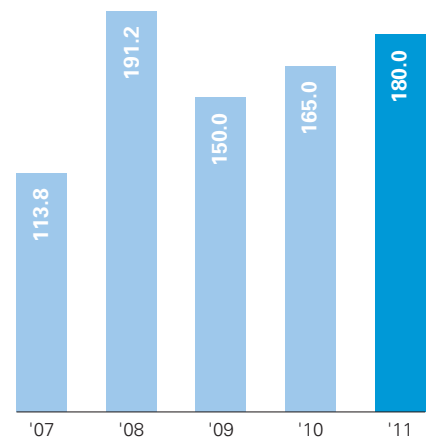
Earnings Per Share
(sen)



Pre-Tax Profit
(RM million)



Net Dividend Per Share
(sen)



DIRECTORS' REPORT

for the year ended 31 December 2011

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 2011.

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 | 456,301 | 423,440 |

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 115 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM269,675,000 in respect of the year ended 31 December 2010 on 26 May 2011; and
- ii) an interim dividend of 55 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM128,975,000 in respect of the year ended 31 December 2011 on 5 October 2011.

The final dividend recommended by the Directors in respect of the year ended 31 December 2011 is 125 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM293,125,000.

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*)
 Dato' Frits van Dijk
 Dato' Mohd. Rafik bin Shah Mohamad
 Mr Peter Vogt
 Mr Marc Seiler
 Tan Sri Datuk [Dr.] Rafiah binti Salim
 Tan Sri Datuk Yong Poh Kon (*appointed on 25.04.2011*)
 YM Tengku Tan Sri Dr. Mahaleel bin Tengku Ariff
 (*retired on 21.04.2011*)

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 1.1.2011 | Bought | Sold | At 31.12.2011 |
|----------------|--------|------|------------------|
|----------------|--------|------|------------------|

Shareholdings in which Directors have direct interest

Interest in the Company

| | | | | |
|------------------------------------|--------|---|----------|--------------|
| Dato' Frits van Dijk | 8,000 | – | – | 8,000 |
| Dato' Mohd. Rafik bin Shah Mohamad | 27,000 | – | (27,000) | – |

← Number of ordinary shares of CHF0.1 each →

| At 1.1.2011 | Bought | Sold | At 31.12.2011 |
|----------------|--------|------|------------------|
|----------------|--------|------|------------------|

Interest in Nestlé S.A., the holding company

| | | | | |
|-----------------|--------|-------|---|---------------|
| Mr Peter Vogt | 14,600 | – | – | 14,600 |
| Mr Detlef Krost | 2,800 | 5,000 | – | 7,800 |

None of the other Directors holding office at 31 December 2011 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 2011

DIRECTORS' BENEFITS

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

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

Before the 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 so to realise.

OTHER STATUTORY INFORMATION (CONTINUED)

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

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2011 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

Marc Seiler

Petaling Jaya, Malaysia
23 February 2012

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2011

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|---|------|-------------------------|----------------|---------------------------|----------------|
| Assets | | | | | |
| Property, plant and equipment | 3 | 889,741 | 897,505 | - | - |
| Goodwill | 4 | 61,024 | 61,024 | - | - |
| Investments in subsidiaries | 5 | - | - | 188,022 | 188,022 |
| Investment in an associate | 6 | 3,210 | 3,189 | 3,000 | 3,000 |
| Deferred tax assets | 7 | 9,482 | 10,441 | - | - |
| Trade and other receivables | 8 | 23,802 | 22,653 | - | - |
| Total non-current assets | | 987,259 | 994,812 | 191,022 | 191,022 |
| Trade and other receivables | 8 | 444,854 | 354,303 | 372,401 | 347,743 |
| Inventories | 9 | 517,573 | 380,539 | - | - |
| Current tax assets | | 176 | 344 | 91 | 20 |
| Cash and cash equivalents | 10 | 52,461 | 48,683 | - | - |
| Total current assets | | 1,015,064 | 783,869 | 372,492 | 347,763 |
| Total assets | | 2,002,323 | 1,778,681 | 563,514 | 538,785 |
| Equity | | | | | |
| Share capital | | 234,500 | 234,500 | 234,500 | 234,500 |
| Reserves | | 10,560 | 37,016 | 33,000 | 33,000 |
| Retained earnings | | 395,800 | 341,820 | 295,271 | 270,481 |
| Total equity attributable to owners of the Company | 11 | 640,860 | 613,336 | 562,771 | 537,981 |
| Liabilities | | | | | |
| Loans and borrowings | 12 | 337,711 | 326,298 | - | - |
| Employee benefits | 13 | 42,316 | 42,537 | - | - |
| Deferred tax liabilities | 7 | 66,696 | 75,595 | - | - |
| Total non-current liabilities | | 446,723 | 444,430 | - | - |
| Loans and borrowings | 12 | 4,223 | 87,256 | - | - |
| Trade and other payables | 14 | 878,321 | 623,269 | 743 | 804 |
| Taxation | | 32,196 | 10,390 | - | - |
| Total current liabilities | | 914,740 | 720,915 | 743 | 804 |
| Total liabilities | | 1,361,463 | 1,165,345 | 743 | 804 |
| Total equity and liabilities | | 2,002,323 | 1,778,681 | 563,514 | 538,785 |

The notes on pages 16 to 58 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|--|------|-------------------------|----------------|---------------------------|----------------|
| Revenue | | 4,700,994 | 4,026,319 | 422,400 | 383,815 |
| Cost of goods sold | | (3,158,877) | (2,682,027) | – | – |
| Gross profit | | 1,542,117 | 1,344,292 | 422,400 | 383,815 |
| Other income | | 1,595 | 736 | 537 | – |
| Distribution and selling expenses | | (828,947) | (749,794) | – | – |
| Administrative expenses | | (128,711) | (95,576) | (1,351) | (1,500) |
| Other expenses | | (6,626) | (12,167) | – | – |
| Results from operating activities | 15 | 579,428 | 487,491 | 421,586 | 382,315 |
| Finance income | | 458 | 35 | 2,514 | 2,730 |
| Finance costs | | (21,398) | (21,669) | – | – |
| Net finance (costs)/income | | (20,940) | (21,634) | 2,514 | 2,730 |
| Share of profit/(loss) of an equity accounted associate, net of tax | | 321 | (113) | – | – |
| Profit before tax | | 558,809 | 465,744 | 424,100 | 385,045 |
| Income tax expense | 17 | (102,508) | (74,346) | (660) | 1,602 |
| Profit for the year | | 456,301 | 391,398 | 423,440 | 386,647 |
| Other comprehensive (expense)/income, net of tax | | | | | |
| Cash flow hedge | | (26,456) | 4,125 | – | – |
| Defined benefit plan actuarial (losses)/gains | | (3,671) | 2,384 | – | – |
| Other comprehensive (expense)/income for the year, net of tax | 18 | (30,127) | 6,509 | – | – |
| Total comprehensive income for the year | | 426,174 | 397,907 | 423,440 | 386,647 |
| Basic and diluted earnings per ordinary share (sen) | 19 | 195 | 167 | | |

The notes on pages 16 to 58 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

| Group | Note | Attributable to owners of the Company | | | Total equity RM'000 | |
|---|------|---------------------------------------|-------------------------|---------------------------|------------------------|----------------|
| | | Share capital RM'000 | Share premium RM'000 | Hedging reserve RM'000 | | |
| At 1 January 2010 | | 234,500 | 33,000 | (109) | 299,788 | 567,179 |
| 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 | 20 | – | – | – | (351,750) | (351,750) |
| Total distribution to owners | | – | – | – | (351,750) | (351,750) |
| At 31 December 2010/1 January 2011 | | 234,500 | 33,000 | 4,016 | 341,820 | 613,336 |
| Cash flow hedge | | – | – | (26,456) | – | (26,456) |
| Defined benefit plan actuarial losses | | – | – | – | (3,671) | (3,671) |
| Total other comprehensive expense for the year | | – | – | (26,456) | (3,671) | (30,127) |
| Profit for the year | | – | – | – | 456,301 | 456,301 |
| Total comprehensive (expense)/income for the year | | – | – | (26,456) | 452,630 | 426,174 |
| Dividends paid to owners of the Company | 20 | – | – | – | (398,650) | (398,650) |
| Total distribution to owners | | – | – | – | (398,650) | (398,650) |
| At 31 December 2011 | | 234,500 | 33,000 | (22,440) | 395,800 | 640,860 |

The notes on pages 16 to 58 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

| 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 | |
| At 1 January 2010 | | 234,500 | 33,000 | 235,584 | 503,084 |
| Profit and total comprehensive income for the year | | – | – | 386,647 | 386,647 |
| Dividends paid to owners of the Company | 20 | – | – | (351,750) | (351,750) |
| Total distribution to the owners | | – | – | (351,750) | (351,750) |
| At 31 December 2010/1 January 2011 | | 234,500 | 33,000 | 270,481 | 537,981 |
| Profit and total comprehensive income for the year | | – | – | 423,440 | 423,440 |
| Dividends paid to owners of the Company | 20 | – | – | (398,650) | (398,650) |
| Total distribution to the owners | | – | – | (398,650) | (398,650) |
| At 31 December 2011 | | 234,500 | 33,000 | 295,271 | 562,771 |

The notes on pages 16 to 58 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2011

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|--|------|-------------------------|----------------|---------------------------|----------------|
| Cash flows from operating activities | | | | | |
| Profit before tax | | 558,809 | 465,744 | 424,100 | 385,045 |
| <i>Adjustments for:</i> | | | | | |
| Depreciation on property, plant and equipment | 3 | 101,894 | 101,112 | - | - |
| Dividend income | | - | - | (422,400) | (383,815) |
| Expenses related to defined benefit plans | 15 | 12,103 | 19,755 | - | - |
| Finance costs | | 21,398 | 21,669 | - | - |
| Finance income | | (458) | (35) | (2,514) | (2,730) |
| Loss on disposal of property, plant and equipment | 15 | 670 | 1,478 | - | - |
| Property, plant and equipment written off | 15 | 7,746 | 481 | - | - |
| (Reversal of)/Impairment loss on property, plant and equipment | 3 | (151) | 1,509 | - | - |
| Share-based payments | 15 | 17,050 | 4,556 | - | - |
| Share of (profit)/loss of an equity accounted associate, net of tax | | (321) | 113 | - | - |
| Operating profit/(loss) before changes in working capital | | 718,740 | 616,382 | (814) | (1,500) |
| Change in inventories | | (137,034) | (26,158) | - | - |
| Change in trade and other payables | | 176,564 | (4,049) | (61) | 335 |
| Change in trade and other receivables | | (80,775) | 22,422 | (24,658) | (33,267) |
| Cash generated from/(used in) operations | | 677,495 | 608,597 | (25,533) | (34,432) |
| Dividends received from subsidiaries | | - | - | 422,100 | 383,650 |
| Employee benefits paid | | (17,219) | (22,450) | - | - |
| Income tax paid | | (78,432) | (84,019) | (731) | (363) |
| Income tax refunded | | - | 6,798 | - | - |
| Net cash from operating activities | | 581,844 | 508,926 | 395,836 | 348,855 |
| Cash flows from investing activities | | | | | |
| Acquisition of property, plant and equipment | (ii) | (93,015) | (143,915) | - | - |
| Finance income received | | 458 | 35 | 2,514 | 2,730 |
| Dividend received from an associate | | 300 | 165 | 300 | 165 |
| Proceeds from disposal of property, plant and equipment | | 1,574 | 3,327 | - | - |
| Net cash (used in)/from investing activities | | (90,683) | (140,388) | 2,814 | 2,895 |

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2011

| | Note | 2011 RM'000 | Group 2010 RM'000 | 2011 RM'000 | Company 2010 RM'000 |
|---|------|------------------|-------------------------|------------------|---------------------------|
| Cash flows from financing activities | | | | | |
| Dividends paid to owners of the Company | 20 | (398,650) | (351,750) | (398,650) | (351,750) |
| Finance costs paid | | (21,398) | (21,669) | – | – |
| Payment of finance lease liabilities | | (3,204) | (3,453) | – | – |
| Proceeds from borrowings | | 165,000 | 58,000 | – | – |
| Repayment of borrowings | | (202,761) | (47,500) | – | – |
| Net cash used in financing activities | | (461,013) | (366,372) | (398,650) | (351,750) |
| Net increase in cash and cash equivalents | | 30,148 | 2,166 | – | – |
| Cash and cash equivalents at 1 January | (i) | 22,313 | 20,147 | – | – |
| Cash and cash equivalents at 31 December | (i) | 52,461 | 22,313 | – | – |

i) *Cash and cash equivalents*

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

| | Note | 2011 RM'000 | Group 2010 RM'000 | 2011 RM'000 | Company 2010 RM'000 |
|-----------------------------------|------|----------------|-------------------------|----------------|---------------------------|
| Cash and bank balances | 10 | 36,207 | 48,683 | – | – |
| Deposits placed in licensed banks | 10 | 16,254 | – | – | – |
| Bank overdraft | 12 | – | (26,370) | – | – |
| | | 52,461 | 22,313 | – | – |

ii) *Acquisition of property, plant and equipment*

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM103,969,000 (2010: RM145,159,000), of which RM10,954,000 (2010: RM1,244,000) were acquired by means of finance leases.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 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 2011 do not include other entities.

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

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

The financial statements were authorised for issue by the Board of Directors on 23 February 2012.

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 following are accounting standards, amendments and interpretations of the FRS framework that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company:

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)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

1. BASIS OF PREPARATION (CONTINUED)**(a) Statement of compliance (continued)*****FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013***

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

The Group's and the Company's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, the Group and the Company will not be adopting the above FRSs, Interpretations and amendments.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise disclosed.

(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.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses. The cost of investments includes transaction costs.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

(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. 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 associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses. The cost of investments includes transaction costs.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

(b) Loans and receivables

Loans and receivables category comprises 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)).

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 equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Financial instruments (continued)****(iv) Derecognition**

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

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

(d) Property, plant and equipment**(i) Recognition and measurement**

Capital work-in-progress 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(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.

(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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(ii) Operating lease

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

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

(f) Goodwill

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

Goodwill 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

(ii) Other assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs 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 or cash-generating unit.

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at 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.

(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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Employee benefits (continued)****(ii) 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 economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or any settlement of the plan liabilities.

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 and all expenses related to defined benefit plans in personnel expenses in profit or loss.

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

(k) Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions (continued)

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

(ii) Dividend income

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

(iii) Interest income

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

(m) Borrowing costs

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

Income tax 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 be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

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.

(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, adjusted for own shares held.

(p) Operating segments

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

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

| Group | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery, tools, furniture and equipment RM'000 | Motor vehicles RM'000 | Information systems RM'000 | Capital work-in- progress RM'000 | Total RM'000 |
|---|-----------------------------|---------------------|--|-----------------------------|----------------------------------|---|------------------|
| Cost | | | | | | | |
| At 1 January 2010 | 58,317 | 318,404 | 1,401,956 | 17,551 | 74,172 | 11,820 | 1,882,220 |
| Additions | 37,172 | 15,837 | 73,454 | 2,317 | 6,825 | 9,554 | 145,159 |
| Disposals | – | – | (6,821) | (1,198) | (221) | – | (8,240) |
| Written off | – | (11) | (8,922) | – | (2,433) | – | (11,366) |
| Transfer in/(out) | – | 304 | 11,133 | – | 383 | (11,820) | – |
| At 31 December 2010/1 January 2011 | 95,489 | 334,534 | 1,470,800 | 18,670 | 78,726 | 9,554 | 2,007,773 |
| Additions | 518 | 14,638 | 64,982 | 4,138 | 3,882 | 15,811 | 103,969 |
| Disposals | – | (413) | (4,108) | (3,232) | (1,069) | – | (8,822) |
| Written off | – | (722) | (44,019) | – | (1,259) | – | (46,000) |
| Transfer in/(out) | – | 1,909 | 6,883 | – | 96 | (8,888) | – |
| At 31 December 2011 | 96,007 | 349,946 | 1,494,538 | 19,576 | 80,376 | 16,477 | 2,056,920 |
| Depreciation and impairment loss | | | | | | | |
| At 1 January 2010: | | | | | | | |
| 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) |
| At 31 December 2010: | | | | | | | |
| Accumulated depreciation | 7,510 | 98,220 | 917,951 | 10,958 | 54,365 | – | 1,089,004 |
| Accumulated impairment loss | – | 6,284 | 14,833 | – | 147 | – | 21,264 |
| | 7,510 | 104,504 | 932,784 | 10,958 | 54,512 | – | 1,110,268 |

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Leasehold land RM'000 | Buildings RM'000 | Plant and machinery, tools, furniture and equipment RM'000 | Motor vehicles RM'000 | Information systems RM'000 | Capital work-in- progress RM'000 | Total RM'000 |
|---|-----------------------------|---------------------|--|-----------------------------|----------------------------------|---|-----------------|
| Depreciation and impairment loss (continued) | | | | | | | |
| At 1 January 2011: | | | | | | | |
| Accumulated depreciation | 7,510 | 98,220 | 917,951 | 10,958 | 54,365 | – | 1,089,004 |
| Accumulated impairment loss | – | 6,284 | 14,833 | – | 147 | – | 21,264 |
| | 7,510 | 104,504 | 932,784 | 10,958 | 54,512 | – | 1,110,268 |
| Depreciation for the year | 1,703 | 7,631 | 83,650 | 1,817 | 7,093 | – | 101,894 |
| Reversal of impairment | – | – | (151) | – | – | – | (151) |
| Disposals | – | (309) | (2,765) | (2,435) | (1,069) | – | (6,578) |
| Written off | – | (690) | (36,348) | – | (1,216) | – | (38,254) |
| At 31 December 2011: | | | | | | | |
| Accumulated depreciation | 9,213 | 104,852 | 962,488 | 10,340 | 59,173 | – | 1,146,066 |
| Accumulated impairment loss | – | 6,284 | 14,682 | – | 147 | – | 21,113 |
| | 9,213 | 111,136 | 977,170 | 10,340 | 59,320 | – | 1,167,179 |
| Carrying amounts | | | | | | | |
| At 1 January 2010 | 51,898 | 220,874 | 543,557 | 7,540 | 24,564 | 11,820 | 860,253 |
| At 31 December 2010/1 January 2011 | 87,979 | 230,030 | 538,016 | 7,712 | 24,214 | 9,554 | 897,505 |
| At 31 December 2011 | 86,794 | 238,810 | 517,368 | 9,236 | 21,056 | 16,477 | 889,741 |

Leased plant and machinery

At 31 December 2011, the net carrying amount of leased plant and machinery of the Group was RM16,842,000 (2010: RM9,595,000).

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. GOODWILL

| | 2011 RM'000 | Group 2010 RM'000 |
|---------------------------------|----------------|-------------------------|
| Cost/Carrying amounts | | |
| At 1 January/31 December | 61,024 | 61,024 |

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

Impairment testing

The recoverable amount of the ice-cream business unit is higher than its carrying amount and was based on the fair value less cost to sell.

Fair value less cost to sell was determined by discounting the future cash flows generated from the continuing operation of the ice-cream business unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 9-year business plan and extended to further 20 years at a fixed growth rate.
- The anticipated annual growth rate is estimated to be 5% to 9%.
- The unit will continue its operations indefinitely.
- A discount rate of 7.2% (2010: 7.2%) was applied.
- The size of operations will remain with at least or not lower than the current results.

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

5. INVESTMENTS IN SUBSIDIARIES

| | 2011 RM'000 | Company 2010 RM'000 |
|---------------------------------|----------------|---------------------------|
| At cost: | | |
| Unquoted shares | | |
| At 1 January/31 December | 188,022 | 188,022 |

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

| Name of subsidiary | Country of incorporation | Principal activities | Effective ownership interest | |
|---|--------------------------|--|------------------------------|-----------|
| | | | 2011 % | 2010 % |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

6. INVESTMENT IN AN ASSOCIATE

| | Group | | Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| At cost: | | | | |
| Unquoted shares | 3,000 | 3,000 | 3,000 | 3,000 |
| Share of post-acquisition reserves | 210 | 189 | – | – |
| | 3,210 | 3,189 | 3,000 | 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 | Profit/ (Loss) (100%) RM'000 | Total assets (100%) RM'000 | Total liabilities (100%) RM'000 |
|---------------------------------------|-----------------------------|---|-----------------------------|---------------------------------------|-------------------------------------|--|
| 2011 | | | | | | |
| Nihon Canpack (Malaysia) Sdn. Bhd. | Malaysia | 20 | 154,078 | 1,657 | 65,615 | 49,565 |
| 2010 | | | | | | |
| Nihon Canpack (Malaysia) Sdn. Bhd. | Malaysia | 20 | 107,586 | (565) | 67,329 | 51,381 |

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

| Group | Assets | | Liabilities | | Net | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Property, plant and equipment | – | – | (86,970) | (87,509) | (86,970) | (87,509) |
| Employee benefit plans | 10,579 | 10,634 | – | – | 10,579 | 10,634 |
| Provisions | 11,698 | 13,060 | – | – | 11,698 | 13,060 |
| Hedging reserve | 7,479 | – | – | (1,339) | 7,479 | (1,339) |
| Tax assets/(liabilities) | 29,756 | 23,694 | (86,970) | (88,848) | (57,214) | (65,154) |
| Set off of tax | (20,274) | (13,253) | 20,274 | 13,253 | – | – |
| Net tax assets/(liabilities) | 9,482 | 10,441 | (66,696) | (75,595) | (57,214) | (65,154) |

7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**Movement in temporary differences during the year**

| Group | At 1.1.2010 RM'000 | Recognised in profit or loss (note 17) RM'000 | Recognised in other comprehensive income (note 18) RM'000 | At 31.12.2010/ 1.1.2011 RM'000 | Recognised in profit or loss (note 17) RM'000 | Recognised in other comprehensive income (note 18) RM'000 | At 31.12.2011 RM'000 |
|-------------------------------|--------------------------|---|--|---|---|--|----------------------------|
| Property, plant and equipment | 83,877 | 3,632 | – | 87,509 | (539) | – | 86,970 |
| Employee benefit plans | (12,103) | 674 | 795 | (10,634) | 1,279 | (1,224) | (10,579) |
| Provisions | (8,808) | (4,252) | – | (13,060) | 1,362 | – | (11,698) |
| Hedging reserve | (36) | – | 1,375 | 1,339 | – | (8,818) | (7,479) |
| | 62,930 | 54 | 2,170 | 65,154 | 2,102 | (10,042) | 57,214 |

Subject to agreement by the Inland Revenue Board, the Group has unutilised reinvestment allowance of RM5,920,000 (2010: RM4,700,000) and investment tax allowance of RM41,515,000 (2010: RM137,759,000).

8. TRADE AND OTHER RECEIVABLES

| Note | 2011 RM'000 | Group 2010 RM'000 | 2011 RM'000 | Company 2010 RM'000 |
|------------------------------------|----------------|-------------------------|----------------|---------------------------|
| Non-current | | | | |
| Loans to employees | | 23,802 | 22,653 | – |
| Current | | | | |
| Trade | | | | |
| Trade receivables | | 211,587 | 162,666 | – |
| Less: Impairment loss | | (6,365) | (6,966) | – |
| | | 205,222 | 155,700 | – |
| Amounts due from related companies | 8.1 | 143,928 | 121,175 | – |
| Amount due from an associate | 8.1 | 15,345 | 11,311 | – |
| Designated as hedging instruments: | | | | |
| - Commodity futures | | 363 | 2,386 | – |
| - Foreign exchange contracts | | 39 | 3,965 | – |
| | | 364,897 | 294,537 | – |

NOTES TO THE FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Non-trade | | | | | |
| Amounts due from subsidiaries | 8.1 | – | – | 371,981 | 347,624 |
| Amounts due from related companies | 8.1 | 17,761 | 7,580 | – | – |
| Amount due from an associate | 8.1 | 326 | – | 300 | – |
| Other receivables, deposits and prepayments | 8.2 | 61,870 | 52,186 | 120 | 119 |
| | | 79,957 | 59,766 | 372,401 | 347,743 |
| | | 444,854 | 354,303 | 372,401 | 347,743 |
| Total | | 468,656 | 376,956 | 372,401 | 347,743 |

8.1 Amount due from subsidiaries, related companies and an associate

The trade receivables due from related companies and an associate are subject to the normal trade terms. The non-trade receivables due from subsidiaries, related companies and an associate are unsecured, interest free and repayable on demand, except for advances to a subsidiary of RM77,877,000 (2010: RM81,692,000) which is subject to interest at 3.64% - 4.09% (2010: 2.89% - 3.71%) per annum.

8.2 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM9,206,000 (2010: RM9,155,000) which are unsecured and interest free and down payment to vendors of RM7,763,000 (2010: RM4,804,000).

9. INVENTORIES

| | 2011 RM'000 | 2010 RM'000 |
|---|------------------|----------------|
| Raw and packaging materials | 219,608 | 144,263 |
| Work-in-progress | 21,139 | 16,558 |
| Finished goods | 258,968 | 202,828 |
| Spare parts | 17,858 | 16,890 |
| | 517,573 | 380,539 |
| Recognised in profit or loss: | | |
| - Inventories recognised as cost of sales | 2,641,229 | 2,220,687 |

10. CASH AND CASH EQUIVALENTS

| | 2011 RM'000 | 2010 RM'000 |
|-------------------------------------|----------------|----------------|
| Cash and bank balances | 36,207 | 48,683 |
| Deposits placed with licensed banks | 16,254 | – |
| | 52,461 | 48,683 |

NOTES TO THE FINANCIAL STATEMENTS

11. CAPITAL AND RESERVES

Share capital

| | ← Group and Company → | | | |
|-----------------------------|--------------------------|-------------------------------------|--------------------------|-------------------------------------|
| | Amount 2011 RM'000 | Number of shares 2011 '000 | Amount 2010 RM'000 | Number of shares 2010 '000 |
| Authorised: | | | | |
| Ordinary shares of RM1 each | 300,000 | 300,000 | 300,000 | 300,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of RM1 each | 234,500 | 234,500 | 234,500 | 234,500 |

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

Share premium

Share premium relates to the amount that 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.

12. LOANS AND BORROWINGS

| | Note | Group 2011 RM'000 | 2010 RM'000 |
|---|------|-------------------------|----------------|
| Non-current | | | |
| Loan from a related company - unsecured | | 324,264 | 319,264 |
| Finance lease liabilities | 12.1 | 13,447 | 7,034 |
| | | 337,711 | 326,298 |
| Current | | | |
| Revolving credit - unsecured | | – | 58,000 |
| Finance lease liabilities | 12.1 | 4,223 | 2,886 |
| Bank overdraft - unsecured | | – | 26,370 |
| | | 4,223 | 87,256 |
| | | 341,934 | 413,554 |

NOTES TO THE FINANCIAL STATEMENTS

12. LOANS AND BORROWINGS (CONTINUED)**12.1 Finance lease liabilities**

Finance lease liabilities are payable as follows:

| Group | 2011 | | | 2010 | | |
|----------------------------|--------------------------------------|-----------------|--|--------------------------------------|-----------------|--|
| | 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 | 5,137 | 914 | 4,223 | 3,402 | 516 | 2,886 |
| Between one and five years | 14,975 | 1,528 | 13,447 | 7,676 | 642 | 7,034 |
| | 20,112 | 2,442 | 17,670 | 11,078 | 1,158 | 9,920 |

13. EMPLOYEE BENEFITS**Retirement benefits**

| | Group | |
|--|---------------|-------------|
| | 2011 RM'000 | 2010 RM'000 |
| Present value of funded obligations | 229,831 | 225,253 |
| Fair value of plan assets | (187,515) | (182,716) |
| Recognised liability for defined benefit obligations | 42,316 | 42,537 |

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.

13. EMPLOYEE BENEFITS (CONTINUED)**Retirement benefits (continued)****Plan assets comprise:**

| | 2011 RM'000 | Group 2010 RM'000 |
|---------------------------|----------------|-------------------------|
| Quoted investments | 164,505 | 159,131 |
| Unquoted investments | – | 10,489 |
| Cash and cash equivalents | 25,841 | 5,814 |
| Others | (2,831) | 7,282 |
| | 187,515 | 182,716 |

Movements in the present value of the defined benefit obligations

| | 2011 RM'000 | Group 2010 RM'000 |
|--|----------------|-------------------------|
| Defined benefit obligations at 1 January | 225,253 | 200,417 |
| Benefits paid by the plan | (14,034) | (13,027) |
| Current service costs and interest | 24,332 | 23,917 |
| Past service costs | – | 5,965 |
| Actuarial (gains)/losses recognised | (5,777) | 7,905 |
| Others | 57 | 76 |
| Defined benefit obligations at 31 December | 229,831 | 225,253 |

Movements in the fair value of plan assets

| | 2011 RM'000 | Group 2010 RM'000 |
|--|----------------|-------------------------|
| Fair value of plan assets at 1 January | 182,716 | 152,006 |
| Contributions paid into the plan | 17,219 | 22,450 |
| Benefits paid by the plan | (14,034) | (13,027) |
| Expected return on plan assets | 12,229 | 10,127 |
| Actuarial (losses)/gains recognised | (10,672) | 11,084 |
| Others | 57 | 76 |
| Fair value of plan assets at 31 December | 187,515 | 182,716 |

NOTES TO THE FINANCIAL STATEMENTS

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

| | Note | 2011 RM'000 | Group 2010 RM'000 |
|--------------------------------|------|----------------|-------------------------|
| Current service costs | | 9,669 | 10,401 |
| Past service costs | | – | 5,965 |
| Interest on obligation | | 14,663 | 13,516 |
| Expected return on plan assets | | (12,229) | (10,127) |
| | 15 | 12,103 | 19,755 |

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

| | Note | 2011 RM'000 | Group 2010 RM'000 |
|-----------------------------------|------|----------------|-------------------------|
| Cost of goods sold | | 5,199 | 8,045 |
| Distribution and selling expenses | | 4,849 | 8,635 |
| Administrative expenses | | 2,055 | 3,075 |
| | 15 | 12,103 | 19,755 |
| Actual return on plan assets | | 1,557 | 21,211 |

Actuarial gains and losses recognised directly in other comprehensive income

| | 2011 RM'000 | Group 2010 RM'000 |
|----------------------------------|-----------------|-------------------------|
| Cumulative amount at 1 January | (5,606) | (8,785) |
| Recognised during the year | (4,895) | 3,179 |
| Cumulative amount at 31 December | (10,501) | (5,606) |

Actuarial assumptions

Principal actuarial assumptions at the reporting date:

| | 2011 | Group 2010 |
|--------------------------------|-------|---------------|
| Discount rate | 6.75% | 6.75% |
| Expected return on plan assets | 7.00% | 7.00% |
| Future salary increases | 5.50% | 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.

13. EMPLOYEE BENEFITS (CONTINUED)**Retirement benefits (continued)****Historical information**

| Group | 2011 RM'000 | 2010 RM'000 | 2009 RM'000 | 2008 RM'000 | 2007 RM'000 |
|--|------------------|----------------|----------------|----------------|----------------|
| Present value of the defined benefit obligation | 229,831 | 225,253 | 200,417 | 188,217 | 173,162 |
| Fair value of plan assets | (187,515) | (182,716) | (152,006) | (133,519) | (132,841) |
| Deficit in the plan | 42,316 | 42,537 | 48,411 | 54,698 | 40,321 |
| Experience adjustments arising on plan liabilities | 5,777 | (7,905) | (3,747) | (6,161) | (1,683) |
| Experience adjustments arising on plan assets | (10,672) | 11,084 | 6,115 | (11,118) | 14,715 |

The Group expects to pay RM16,091,000 in contributions to defined benefit plans in 2012.

14. TRADE AND OTHER PAYABLES

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|------------------------------------|------|-------------------------|----------------|---------------------------|----------------|
| Trade | | | | | |
| Trade payables | | 576,508 | 420,553 | – | – |
| Amounts due to related companies | 14.1 | 46,566 | 31,902 | – | – |
| Amount due to an associate | 14.1 | 14,753 | 6,737 | – | – |
| Designated as hedging instruments: | | | | | |
| - Commodity futures | | 24,555 | 393 | – | – |
| - Foreign exchange contracts | | 8,951 | 939 | – | – |
| | | 671,333 | 460,524 | – | – |
| Non-trade | | | | | |
| Amounts due to related companies | 14.1 | 45,521 | 19,774 | – | – |
| Other payables | | 39,409 | 32,367 | 3 | 38 |
| Accrued expenses | | 122,058 | 110,604 | 740 | 766 |
| | | 206,988 | 162,745 | 743 | 804 |
| | | 878,321 | 623,269 | 743 | 804 |

14.1 Amount due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, repayable on demand and interest free.

NOTES TO THE FINANCIAL STATEMENTS

15. RESULTS FROM OPERATING ACTIVITIES

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|--|------|-------------------------|----------------|---------------------------|----------------|
| Results from operating activities | | | | | |
| is arrived at after charging: | | | | | |
| Auditors' remuneration: | | | | | |
| - Statutory audit | | | | | |
| KPMG | | 469 | 425 | 117 | 106 |
| - Other services | | | | | |
| KPMG | | 165 | 178 | 165 | 178 |
| Affiliates of KPMG | | 25 | 25 | 1 | 1 |
| Depreciation of property, plant and equipment | 3 | 101,894 | 101,112 | - | - |
| Impairment loss on property, plant and equipment | 3 | - | 1,509 | - | - |
| Loss on disposal of property, plant and equipment | | 670 | 1,478 | - | - |
| Net foreign exchange loss: | | | | | |
| - Unrealised | | - | 962 | - | - |
| Personnel expenses (including key management personnel): | | | | | |
| - Contributions to Employees Provident Fund | | 31,304 | 26,820 | - | - |
| - Expenses related to defined benefit plans | 13 | 12,103 | 19,755 | - | - |
| - Share-based payments | | 17,050 | 4,556 | - | - |
| - Wages, salaries and others | | 385,392 | 353,949 | - | - |
| Property, plant and equipment written off | | 7,746 | 481 | - | - |
| Rental expenses on land and buildings | | 48,759 | 49,955 | - | - |
| and after crediting: | | | | | |
| Dividend income from: | | | | | |
| - Subsidiaries (unquoted) | | - | - | 422,100 | 383,650 |
| - An associate (unquoted) | | 300 | 165 | 300 | 165 |
| Net foreign exchange gain: | | | | | |
| - Realised | | 7,110 | 3,781 | 537 | - |
| - Unrealised | | 235 | - | - | - |
| Reversal of impairment loss on property, plant and equipment | 3 | 151 | - | - | - |
| Reversal of impairment loss on trade receivables (net) | | 504 | 2,012 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Directors: | | | | |
| – Fees | 180 | 220 | 180 | 220 |
| – Remuneration | 5,426 | 4,489 | – | – |
| – Other short-term employee benefits (including estimated monetary value of benefits-in-kind) | 1,068 | 1,083 | 50 | 50 |
| Total short-term employee benefits | 6,674 | 5,792 | 230 | 270 |
| Post-employment benefits | 552 | 516 | – | – |
| Share-based payments | 1,886 | 1,586 | – | – |
| | 9,112 | 7,894 | 230 | 270 |
| Other key management personnel: | | | | |
| – Short-term employee benefits | 7,200 | 6,242 | – | – |
| – Post-employment benefits | 332 | 239 | – | – |
| – Share-based payments | 1,949 | 2,059 | – | – |
| | 9,481 | 8,540 | – | – |
| | 18,593 | 16,434 | 230 | 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.

NOTES TO THE FINANCIAL STATEMENTS

17. INCOME TAX EXPENSE

Recognised in the profit or loss

| | Note | Group 2011 RM'000 | 2010 RM'000 | Company 2011 RM'000 | 2010 RM'000 |
|--------------------|------|-------------------------|----------------|---------------------------|----------------|
| Income tax expense | | 102,508 | 74,346 | 660 | (1,602) |

Major components of income tax expense include:

Current tax expense

| | | | | | |
|--|--|----------------|---------|------------|---------|
| Malaysian – current year | | 101,328 | 76,691 | 656 | 680 |
| – prior year | | (922) | (2,399) | 4 | (2,282) |
| Total current tax recognised in the profit or loss | | 100,406 | 74,292 | 660 | (1,602) |

Deferred tax expense

| | | | | | |
|---|---|----------------|--------|------------|---------|
| Origination of temporary differences | | 3,698 | 909 | – | – |
| Over provided in prior years | | (1,596) | (855) | – | – |
| Total deferred tax recognised in the profit or loss | 7 | 2,102 | 54 | – | – |
| Total income tax expense | | 102,508 | 74,346 | 660 | (1,602) |

Reconciliation of tax expense

| | | | | | |
|---|--|-----------------|----------|------------------|----------|
| Profit for the year | | 456,301 | 391,398 | 423,440 | 386,647 |
| Total income tax expense | | 102,508 | 74,346 | 660 | (1,602) |
| Profit excluding tax | | 558,809 | 465,744 | 424,100 | 385,045 |
| Income tax calculated using Malaysian tax rate of 25% | | 139,702 | 116,436 | 106,025 | 96,261 |
| Non-deductible expenses | | 2,787 | 2,420 | 231 | 373 |
| Tax exempt income | | – | – | (105,600) | (95,954) |
| Tax incentives | | (44,778) | (42,781) | – | – |
| Other items | | 7,315 | 1,525 | – | – |
| (Over)/Under provided in prior years | | (2,518) | (3,254) | 4 | (2,282) |
| | | 102,508 | 74,346 | 660 | (1,602) |

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER COMPREHENSIVE (EXPENSE)/INCOME

| Group | Before tax RM'000 | 2011 Tax expense RM'000 | Net of tax RM'000 | Before tax RM'000 | 2010 Tax expense RM'000 | Net of tax RM'000 |
|---|----------------------|----------------------------------|-------------------------|----------------------|----------------------------------|-------------------------|
| Cash flow hedge | | | | | | |
| – (Losses)/Gains arising during the year | (47,866) | 11,966 | (35,900) | 31,429 | (7,857) | 23,572 |
| – Reclassification adjustments for losses/(gains) included in profit or loss | 12,592 | (3,148) | 9,444 | (25,929) | 6,482 | (19,447) |
| | (35,274) | 8,818 | (26,456) | 5,500 | (1,375) | 4,125 |
| Defined benefit plan actuarial (losses)/gains | (4,895) | 1,224 | (3,671) | 3,179 | (795) | 2,384 |
| | (40,169) | 10,042 | (30,127) | 8,679 | (2,170) | 6,509 |

19. EARNINGS PER ORDINARY SHARE**Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share for the year ended 31 December 2011 was based on the profit attributable to ordinary shareholders of RM456.3 million (2010: RM391.4 million) and 234.5 million (2010: 234.5 million) ordinary shares outstanding during the year.

20. DIVIDENDS

Dividends recognised in the current year by the Company are:

| | Sen per share | Total amount RM'000 | Date of payment |
|--------------------------|------------------|---------------------------|-----------------------|
| 2011 | | | |
| Interim 2011 ordinary | | | |
| Tax exempt (single-tier) | 55 | 128,975 | 5 October 2011 |
| Final 2010 ordinary | | | |
| Tax exempt (single-tier) | 115 | 269,675 | 26 May 2011 |
| Total amount | | 398,650 | |
| 2010 | | | |
| 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 | |

NOTES TO THE FINANCIAL STATEMENTS

20. DIVIDENDS (CONTINUED)

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

| | Sen per share | Total amount RM'000 |
|--------------------------|------------------|---------------------------|
| Final ordinary | | |
| Tax exempt (single-tier) | 125 | 293,125 |

21. OPERATING SEGMENTS

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

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

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

| | Food and beverages | | Others | | Total | |
|----------------------------|-----------------------|----------------|----------------|----------------|------------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Revenue and results | | | | | | |
| Revenue | 3,897,769 | 3,347,644 | 803,225 | 678,675 | 4,700,994 | 4,026,319 |
| Operating profit | 481,346 | 393,490 | 108,272 | 103,465 | 589,618 | 496,955 |

Included in the measure of segment operating profit are:

| | | | | | | |
|--|---------------|--------|--------------|--------|----------------|---------|
| Depreciation on property, plant and equipment | 94,859 | 87,807 | 7,035 | 13,305 | 101,894 | 101,112 |
| Reversal of impairment loss on property, plant and equipment | (151) | – | – | – | (151) | – |

21. OPERATING SEGMENTS (CONTINUED)**Reconciliations of reportable segment profit or loss**

| | 2011 RM'000 | 2010 RM'000 |
|--|-----------------|----------------|
| Profit or loss | | |
| Total profit for reportable segments | 589,618 | 496,955 |
| Finance costs | (21,398) | (21,669) |
| Finance income | 458 | 35 |
| Other unallocated expenses | (10,190) | (9,464) |
| Share of profit/(loss) of an associate not included in reportable segments | 321 | (113) |
| Consolidated profit before tax | 558,809 | 465,744 |

22. FINANCIAL INSTRUMENTS**22.1 Categories of financial instruments**

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

- Loans and receivables (L&R);
- Other financial liabilities measured at amortised cost (OL); and
- Derivatives designated as hedging instruments.

| | Carrying amount RM'000 | L&R / (OL) RM'000 | Derivatives - designated as hedging instruments RM'000 |
|------------------------------|------------------------------|-------------------------|--|
| 2011 | | | |
| Financial assets | | | |
| Group | | | |
| Trade and other receivables | 464,379 | 463,977 | 402 |
| Cash and cash equivalents | 52,461 | 52,461 | - |
| | 516,840 | 516,438 | 402 |
| Company | | | |
| Trade and other receivables | 372,401 | 372,401 | - |
| Financial liabilities | | | |
| Group | | | |
| Loans and borrowings | (341,934) | (341,934) | - |
| Trade and other payables | (878,321) | (844,815) | (33,506) |
| | (1,220,255) | (1,186,749) | (33,506) |
| Company | | | |
| Trade and other payables | (743) | (743) | - |

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Categories of financial instruments (continued)

| | Carrying amount RM'000 | L&R / (OL) RM'000 | Derivatives - designated as hedging instruments RM'000 |
|------------------------------|------------------------------|-------------------------|--|
| 2010 | | | |
| Financial assets | | | |
| Group | | | |
| Trade and other receivables | 374,191 | 367,840 | 6,351 |
| Cash and cash equivalents | 48,683 | 48,683 | – |
| | 422,874 | 416,523 | 6,351 |
| Company | | | |
| Trade and other receivables | 347,743 | 347,743 | – |
| Financial liabilities | | | |
| Group | | | |
| Loans and borrowings | (413,554) | (413,554) | – |
| Trade and other payables | (623,269) | (621,937) | (1,332) |
| | (1,036,823) | (1,035,491) | (1,332) |
| Company | | | |
| Trade and other payables | (804) | (804) | – |

22.2 Net gains and losses arising from financial instruments

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Net (losses)/gains on: | | | | |
| Fair value through profit or loss: | | | | |
| – Designated upon initial recognition | (29,846) | 25,605 | – | – |
| Loans and receivables | 2,954 | 5,583 | 2,514 | 2,730 |
| Financial liabilities measured at amortised cost | (11,682) | (27,234) | 537 | – |
| | (38,574) | 3,954 | 3,051 | 2,730 |

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Group 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.

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 RM71,310,000 (2010: RM72,485,000).

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)
Receivables (continued)**Impairment losses**

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

| Group | Gross RM'000 | Individual impairment RM'000 | Net RM'000 |
|-----------------------------|-----------------|------------------------------------|----------------|
| 2011 | | | |
| Not past due | 158,072 | – | 158,072 |
| Past due 0-30 days | 42,359 | – | 42,359 |
| Past due 31-120 days | 5,740 | (949) | 4,791 |
| Past due more than 120 days | 5,416 | (5,416) | – |
| | 211,587 | (6,365) | 205,222 |
| 2010 | | | |
| 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 |
| | 162,666 | (6,966) | 155,700 |

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

| | 2011 RM'000 | Group 2010 RM'000 |
|-----------------------------|----------------|-------------------------|
| At 1 January | 6,966 | 10,700 |
| Impairment loss recognised | 505 | 2,420 |
| Impairment loss reversed | (1,009) | (4,432) |
| Impairment loss written off | (97) | (1,722) |
| At 31 December | 6,365 | 6,966 |

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 actions.

22. FINANCIAL INSTRUMENTS (CONTINUED)**22.4 Credit risk (continued)****Receivables (continued)****Impairment losses (continued)**

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

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

22.5 Liquidity risk

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

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

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 |
|--|------------------------------|--------------------------------------|-------------------------------------|---------------------------|--------------------------|--------------------------|
| 2011 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Finance lease liabilities | 17,670 | 5.00 | 20,112 | 5,137 | 4,627 | 10,348 |
| Loan from a related company - unsecured | 324,264 | 3.74 - 3.99 | 350,140 | 12,938 | 337,202 | - |
| Trade and other payables, excluding derivatives | 844,815 | - | 844,815 | 844,815 | - | - |
| | 1,186,749 | | 1,215,067 | 862,890 | 341,829 | 10,348 |
| Derivative financial liabilities/(assets) | | | | | | |
| Foreign exchange contracts (gross settled) | | | | | | |
| - Outflow | 8,912 | - | 422,907 | 422,907 | - | - |
| - Inflow | - | - | (413,995) | (413,995) | - | - |
| Commodity futures | 24,192 | - | 24,192 | 24,192 | - | - |
| | 1,219,853 | | 1,248,171 | 895,994 | 341,829 | 10,348 |

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis (continued)

| 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 |
|--|---------------------------|--------------------------------|----------------------------------|------------------------|-----------------------|-----------------------|
| 2010 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| 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 | – | – |
| Loan from a related company - unsecured | 319,264 | 3.05 - 3.74 | 343,144 | 11,940 | 331,204 | – |
| Trade and other payables, excluding derivatives | 621,937 | – | 621,937 | 621,937 | – | – |
| | 1,035,491 | | 1,060,529 | 721,649 | 333,970 | 4,910 |
| Derivative financial liabilities/(assets) | | | | | | |
| Foreign exchange contracts (gross settled) | | | | | | |
| – Outflow | – | – | 172,517 | 172,517 | – | – |
| – Inflow | (3,026) | – | (175,543) | (175,543) | – | – |
| Commodity futures | (1,993) | – | (1,993) | (1,993) | – | – |
| | 1,030,472 | | 1,055,510 | 716,630 | 333,970 | 4,910 |

22.6 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.

22.6.1 Currency risk

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

Risk management objectives, policies and processes for managing the risk

The Group hedges a portion of its foreign currency denominated trade receivables and trade payables. Following the guidelines set out by the 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.

22. FINANCIAL INSTRUMENTS (CONTINUED)**22.6 Market risk (continued)****22.6.1 Currency risk (continued)*****Exposure to foreign currency risk***

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

| Group | USD RM'000 | Denominated in SGD RM'000 | THB RM'000 |
|---|---------------|---------------------------------|---------------|
| 2011 | | | |
| Trade receivables | 184 | 1,618 | 7,709 |
| Trade payables | (77,128) | (2,290) | (3,340) |
| Intra-group receivables | 148,546 | 10,942 | - |
| Intra-group payables | (54,203) | (12,705) | - |
| Commodity futures | (2,739) | - | - |
| Exposure in the statement of financial position | 14,660 | (2,435) | 4,369 |
| Net contracted foreign exchange contracts | (417,648) | - | - |
| Net exposure | (402,988) | (2,435) | 4,369 |
| 2010 | | | |
| 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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 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) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remained constant and ignores any impact of forecasted sales and purchases.

| Group | 2011 RM'000 | 2010 RM'000 |
|-------|----------------|----------------|
| USD | 40,299 | 12,143 |
| SGD | 244 | 1,424 |
| THB | (437) | 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.

22.6.2 Interest rate risk

Interest rate risk comprises interest price risk that results from borrowing at fixed rates and interest cash flow risk that results from borrowings at variable rates.

Risk management objectives, policies and processes for managing the risk

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)**22.6 Market risk (continued)****22.6.2 Interest rate risk (continued)*****Exposure to interest rate risk***

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

| | Group | | Company | |
|----------------------------------|------------------|------------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Fixed rate instruments | | | | |
| Financial liabilities | (17,670) | (9,920) | – | – |
| Floating rate instruments | | | | |
| Financial assets | – | – | 77,877 | 81,692 |
| Financial liabilities | (324,264) | (403,634) | – | – |
| | (324,264) | (403,634) | 77,877 | 81,692 |

Interest rate risk sensitivity analysis***Cash flow sensitivity analysis for variable rate instruments***

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) profit or loss before tax by RM3,246,000 (2010: RM4,036,000) on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22.6.3 Commodity price risk

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

Risk management objectives, policies and processes for managing the risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.7 Hedging activities

Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The foreign exchange contracts and commodity futures have the nominal value of RM422,574,000 (2010: RM353,221,000) and RM183,156,000 (2010: RM22,993,000) 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 |
|----------------------------|---------------------------|-------------------------------|------------------------|
| 2011 | | | |
| Foreign exchange contracts | (8,912) | (8,912) | (8,912) |
| Commodity futures | (24,192) | (24,192) | (24,192) |
| 2010 | | | |
| Foreign exchange contracts | 3,026 | 3,026 | 3,026 |
| Commodity futures | 1,993 | 1,993 | 1,993 |

During the year, a loss of RM35,900,000 (2010: gain of RM23,572,000) was recognised in the other comprehensive income and RM9,444,000 (2010: RM19,447,000) was reclassified from equity to profit or loss. Ineffectiveness loss amounting to RM3,421,000 (2010: RM334,000) was recognised in profit or loss during the year in respect of the hedge.

22.8 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 | 2011 | | 2010 | |
|-----------------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount RM'000 | Fair value RM'000 | Carrying amount RM'000 | Fair value RM'000 |
| Loans to employees | 33,008 | 33,008 | 31,808 | 31,808 |
| Finance lease liabilities | (17,670) | (16,174) | (9,920) | (8,825) |
| Loan from a related company | (324,264) | (324,264) | (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. FINANCIAL INSTRUMENTS (CONTINUED)**22.8 Fair value of financial instruments (continued)****22.8.1 Fair value hierarchy**

Comparative figures have not been presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Group | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 |
|------------------------------|-------------------|-------------------|-------------------|
| Financial assets | | | |
| Commodity futures | 363 | - | - |
| Forward exchange contracts | - | 39 | - |
| | 363 | 39 | - |
| Financial liabilities | | | |
| Commodity futures | (24,555) | - | - |
| Forward exchange contracts | - | (8,951) | - |
| | (24,555) | (8,951) | - |

23. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain 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.

NOTES TO THE FINANCIAL STATEMENTS

24. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | 2011 RM'000 | Group 2010 RM'000 |
|----------------------------|----------------|-------------------------|
| Less than one year | 20,354 | 14,997 |
| Between one and five years | 61,697 | 5,486 |
| More than five years | 7,712 | – |
| | 89,763 | 20,483 |

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

25. CAPITAL AND OTHER COMMITMENTS

| | 2011 RM'000 | Group 2010 RM'000 |
|--|----------------|-------------------------|
| Capital expenditure commitments | | |
| Plant and equipment | | |
| Authorised but not contracted for | 179,689 | 115,784 |
| Contracted but not provided for | | |
| Within one year | 31,119 | 21,085 |
| | 210,808 | 136,869 |

26. RELATED PARTIES

Identity of related parties

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

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.

26. RELATED PARTIES (CONTINUED)**Identity of related parties (continued)**

The significant related party transactions of the Group and the Company are as follows:

| Group | Note | 2011 | | 2010 | |
|---|------|---|---|---|---|
| | | 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 |
| Related companies | | | | | |
| Sales of goods and services | a | (1,020,585) | 143,928 | (843,105) | 121,175 |
| Purchases of goods and services | a | 434,454 | (50,740) | 335,400 | (22,483) |
| Royalties | | 182,604 | (13,675) | 159,060 | (10,622) |
| IT shared services | | 25,466 | (6,207) | 21,376 | (5,122) |
| Finance expense | | 11,517 | (2,507) | 11,259 | (2,388) |
| Companies in which Director has interest | | | | | |
| Purchases of goods and services | a | 89,100 | (6,792) | 41,119 | (3,469) |
| Company | | | | | |
| Subsidiaries | | | | | |
| Finance income | b | (3,051) | 254 | (2,730) | 257 |

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

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

Note b Loans to subsidiaries are unsecured, subject to interest at 3.64% - 4.09% (2010: 2.89% - 3.71%) per annum and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

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

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2011, into realised and unrealised profits, pursuant to the directive, is as follows:

| | Group | | Company | |
|--|-----------------|----------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Total retained earnings of the Company and its subsidiaries: | | | | |
| – Realised | 441,895 | 379,863 | 295,271 | 270,481 |
| – Unrealised | (86,243) | (98,219) | – | – |
| | 355,652 | 281,644 | 295,271 | 270,481 |
| Total share of retained earnings of an associate: | | | | |
| – Realised | 210 | 189 | – | – |
| Less: Consolidation adjustments | 39,938 | 59,987 | – | – |
| Total retained earnings | 395,800 | 341,820 | 295,271 | 270,481 |

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 Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

STATEMENT BY DIRECTORS

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

In the opinion of the Directors, the financial statements set out on pages 10 to 57 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 2011 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, Malaysia
23 February 2012

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 58 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya on 23 February 2012.

Marc Seiler

Before me:

Faridah Bt. Sulaiman

Commissioner of Oaths (No. B228)

Petaling Jaya, Malaysia

INDEPENDENT AUDITORS' REPORT

to the members of Nestlé (Malaysia) Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2011 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 57.

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 give a true and fair view of the financial position of the Group and the Company as at 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

INDEPENDENT AUDITORS' REPORT

to the members of Nestlé (Malaysia) Berhad

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 27 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, Malaysia
23 February 2012

Adrian Lee Lye Wang

*Approval Number: 2679/11/13(J)
Chartered Accountant*

SHAREHOLDING STATISTICS

as at 23 February 2012

| | | |
|----------------------------------|---|--------------------------------|
| 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 | 20,266,000 | 8.642 |
| Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 1) | 3,947,810 | 1.683 |

30 LARGEST SHAREHOLDERS

| Name | Number of shares held | % |
|--|-----------------------|--------|
| Nestlé S.A. | 170,276,563 | 72.612 |
| Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board | 20,266,000 | 8.642 |
| Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 1) | 3,947,810 | 1.683 |
| Lembaga Tabung Haji | 3,666,054 | 1.563 |
| Valuecap Sdn Bhd | 3,565,000 | 1.520 |
| Kumpulan Wang Persaraan (Diperbadankan) | 3,190,700 | 1.360 |
| Employees Provident Fund Board | 1,500,000 | 0.639 |
| Pertubuhan Keselamatan Sosial | 1,345,800 | 0.573 |
| Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputera | 1,078,000 | 0.459 |
| Amanahraya Trustees Berhad - Public Islamic Dividend Fund | 1,018,000 | 0.434 |
| Soon Cheong (Malaya) Sdn Bhd | 902,698 | 0.384 |
| Cartaban Nominees (Asing) Sdn Bhd - RBC Dexia Investor Services Bank for Vontobel Fund - Far East Equity | 620,300 | 0.264 |
| Amanahraya Trustees Berhad - Public Islamic Equity Fund | 575,300 | 0.245 |
| Amanahraya Trustees Berhad - Amanah Saham Wawasan 2020 | 570,700 | 0.243 |
| Kwang Teow Sang Sdn Bhd | 560,700 | 0.239 |
| Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (M) Bhd (Par 2) | 544,400 | 0.232 |
| Amanahraya Trustees Berhad - Amanah Saham Malaysia | 487,300 | 0.207 |

SHAREHOLDING STATISTICS

as at 23 February 2012

30 LARGEST SHAREHOLDERS (CONTINUED)

| Name | Number of shares held | % |
|--|-----------------------|-------|
| HSBC Nominees (Asing) Sdn Bhd - BNYM SA/NV for Virtus Emerging Markets Opportunities Fund | 418,700 | 0.178 |
| Woo Khai Yoon | 413,000 | 0.176 |
| Cartaban Nominees (Asing) Sdn Bhd - RBC Dexia Investor Services Bank for Vontobel Fund - Emerging Markets Equity | 412,900 | 0.176 |
| Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Aberdeen) | 400,000 | 0.170 |
| Batu Pahat Seng Huat Sdn Berhad | 363,985 | 0.155 |
| Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (diperbadankan) (Aberdeen) | 316,000 | 0.134 |
| HSBC Nominees (Asing) Sdn Bhd - exempt an for JPMorgan Chase Bank, National Association (Taiwan) | 312,800 | 0.133 |
| Kuok Foundation Berhad | 304,200 | 0.129 |
| Jarrnazz Sdn Bhd | 248,000 | 0.105 |
| HSBC Nominees (Asing) Sdn Bhd - exempt an for BNP Paribas Securities Services (Singapore - SGD) | 245,000 | 0.104 |
| Mayban Nominees (Tempatan) Sdn Bhd - Etiqa Insurance Berhad (Life Par Fund) | 230,000 | 0.098 |
| Cartaban Nominees (Asing) Sdn Bhd - exempt an for RBC Dexia Investor Services Trust (Clients Account) | 228,300 | 0.097 |
| Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (CIMB Prin) | 213,300 | 0.090 |

| Size of Holdings | No. of Shareholders/ Depositors | % of Shareholders/ Depositors | No. of Shares Held | % of Issued Capital |
|---|------------------------------------|----------------------------------|-----------------------|------------------------|
| 1 – 99 | 359 | 8.174 | 2,784 | 0.001 |
| 100 – 1,000 | 2,725 | 62.045 | 1,756,232 | 0.749 |
| 1,001 – 10,000 | 999 | 22.746 | 3,580,281 | 1.527 |
| 10,001 – 100,000 | 253 | 5.760 | 7,270,413 | 3.100 |
| 100,001 – less than 5% of issued shares | 54 | 1.229 | 31,347,727 | 13.368 |
| 5% and above of issued shares | 2 | 0.046 | 190,542,563 | 81.255 |
| Total | 4,392 | 100.000 | 234,500,000 | 100.000 |

DIRECTORS' SHAREHOLDINGS

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

LIST OF PROPERTIES HELD

at 31 December 2011

| Location | Tenure | Age* | Expiry Date | Size (m ²) | Description | Net Book Value RM'000 |
|--|-----------|------|--|------------------------|------------------------|--------------------------|
| 1. No. 25 Jalan Tandang 46050 Petaling Jaya Selangor | Leasehold | 51 | Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069 | 50,342 | Factory | 17,204 |
| 2. Lot No. 3 Jalan Player 15/1 40700 Shah Alam Selangor | Leasehold | 41 | 10.6.2070 | 10,150 | Factory | 2,018 |
| 3. Lot No. 5 Jalan Player 15/1 40700 Shah Alam Selangor | Leasehold | 38 | H.S.(D) 97 H.S.(D) 159 7.11.2072 | 62,596 | Factory | 6,627 |
| 4. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor | Leasehold | 42 | 29.1.2070 | 36,835 | Factory & warehouse | 11,839 |
| 5. Lot Nos. 691 - 696 Mukim Chembong Daerah Rembau Negeri Sembilan | Leasehold | 20 | 27.6.2049 | 173,185 | Factory | 3,212 |
| 6. Lot Nos. 3863 - 3866 and Lot Nos. 687 - 690 Mukim Chembong Daerah Rembau Negeri Sembilan | Leasehold | 20 | 27.6.2049 | | Factory | |
| 7. Lot Nos. 3857 - 3862 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan | Leasehold | 20 | 27.6.2049 | 31,941 | Factory | 1,507 |
| 8. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak | Leasehold | 20 | 19.10.2053 | 25,460 | Factory | 353 |
| 9. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak | Leasehold | 17 | 12.10.2054 | 12,740 | Factory | 673 |
| 10. Plot 46 Bemban Industrial Park Batu Gajah, Perak | Leasehold | 14 | 7.11.2058 | 157,500 | Vacant land | 6,394 |
| 11. Nos. 75 & 76, Jalan Player 15/1 40200 Shah Alam Selangor | Leasehold | 2 | 8.9.2066 | 40,602 | Vacant premises | 36,967 |

* Approximation of age of property in years.



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