



Nestlé® Good food, Good life



CORPORATE GOVERNANCE &
FINANCIAL REPORT 2020



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WELCOME TO THE NESTLÉ CORPORATE GOVERNANCE & FINANCIAL REPORT 2020

ABOUT THIS REPORT

The Nestlé Corporate Governance and Financial Report 2020 assesses our governance practices and reports on our financial performance for the financial year ended 31 December 2020. Our Corporate Governance Overview Statement is to be read in conjunction with our Corporate Governance Report, which has been made available on our corporate website. Save as disclosed in our Corporate Governance Report, Nestlé (Malaysia) Berhad has complied with the main principles of the Malaysian Code on Corporate Governance 2017 ("MCCG").

Developing content

This Corporate Governance and Financial Report 2020 was prepared based on local and global standards, including:

- Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements")
- Corporate Governance Guide by Bursa Malaysia Berhad
- Companies Act 2016
- International Financial Reporting Standards ("IFRS")
- Malaysian Financial Reporting Standards ("MFRS")
- Malaysian Code on Corporate Governance 2017

Icons in this report

AR

Annual Review
2020

CGFR

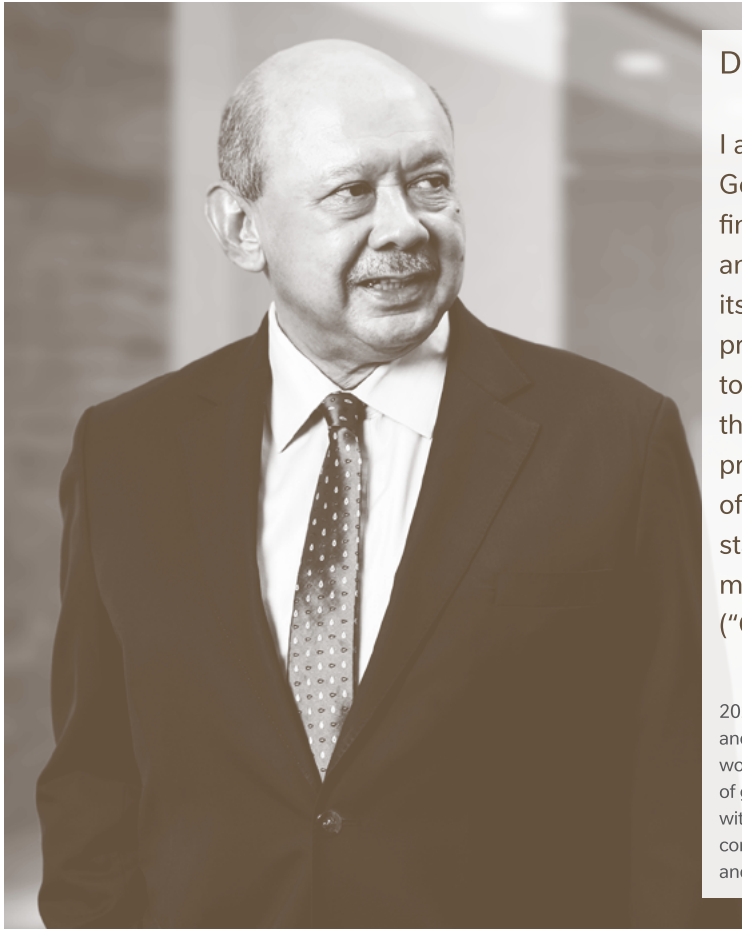
Corporate Governance &
Financial Report 2020

NIS

Nestlé in Society
Report 2020

Corporate Governance Overview Statement

A VIEW FROM THE CHAIRMAN



Dear Shareholders,

I am pleased to present to you our Corporate Governance Overview Statement for the financial year 2020. This statement provides an insight into the activities of the Board and its Committees throughout the year and how it provides appropriate and effective stewardship to Nestlé (Malaysia) Berhad (“Nestlé Malaysia” or the “Company”) to ensure it achieves its strategic priorities. It also discusses how we have taken care of the interests of our Shareholders and all other stakeholders in a year marked by the impacts and many uncertainties created by the Coronavirus (“COVID-19”) pandemic.

2020 has indeed been the year of the COVID-19 pandemic. This has had and continues to have a profound effect on how companies around the world have adapted their operations and further emphasised the importance of good governance at a time when effective engagement and collaboration with stakeholders have never been more crucial. The Board has and will continue to closely monitor the development of the COVID-19 pandemic and its impact on all areas of the Company.

How we responded to the COVID-19 pandemic

In order for us, as the Board, to be able to effectively monitor the Group’s crisis management, we met on a regular basis throughout 2020 to monitor the impact of the COVID-19 pandemic on the Group’s operations and how Management was responding to the developments and following through with the initiatives taken by the Group for the continuity of its operations whilst constantly fostering a safe working environment for its employees.

How we have considered our stakeholders during the COVID-19 pandemic

The protection of Shareholders’ interests both in the short-term and for the long run is central to the way how the Board operates. This has been the primary governing principle behind our response to the COVID-19 pandemic as Directors. We have conferred and deliberated to ensure in this very unusual year that its impact on all key stakeholders was always considered in Management’s decisions. Effective engagement has been crucial in understanding the views of our stakeholders in order to make informed choices during this period of crisis.

Support to the Management Team and

The Board, Management Team and all the employees of Nestlé Malaysia, have been critical in making sure that we kept the lights on in such an unusual year. The Board was particularly concerned with both the physical and mental wellbeing of the employees and has been regularly briefed on the Management’s plans and actions to keep the workforce safe and productive despite multiple operational restrictions. The Board has been fully supportive of the Management’s decisions at each step of the COVID-19 pandemic. The Board

CULTURE AND THE INTERNAL BOARD EVALUATION

Promoting a culture of openness and healthy discussion in the boardroom is one of my key responsibilities as Chairman, and together with the Board, we play an important role as custodians of the Nestlé culture and Malaysian values.

During the year, we undertook a formal and rigorous internal evaluation of the Board and its Committees, which included some follow-up areas from our evaluation last year. The evaluation focused on six areas: Overall Board of Directors Assessment; Director's Skill Sets Assessment; Director's Self and Peer Assessment; Independent Director's Self-Assessment; Audit Committee Assessment; and the Governance, Nomination and Compensation Committee Assessment.

CGFR *The evaluation process and outcomes can be found on pages 18 to 19.*

BOARD DIVERSITY

During the year, we were pleased to announce the appointment of two new Independent Non-Executive Directors to the Board: Dato' Hamidah Naziadin ("Dato' Hamidah") and Datin Sri Azlin Arshad ("Datin Sri Azlin"). Dato' Hamidah joined the Governance, Nomination and Compensation Committee. Her human resources experience has provided valuable insights to the Board and Governance, Compensation and Nomination Committee discussions. Datin Sri Azlin became a member of the Audit Committee and her input to the Board and Audit Committee discussions has been very helpful and valuable in view of her diverse and extensive experience in financial services and the consumer market (online and offline). The Governance, Nomination and Compensation Committee oversaw the rigorous selection process for these appointments and has ensured that they undergo the proper training to have a more robust understanding of the Nestlé culture and values, as well as its strategies and operational model, including that of the Company and its subsidiaries (the "Group").

The Board acknowledges that maintaining a diverse culture on the Board is crucial to improving effectiveness, encouraging constructive debate, fostering a culture of performance that supports the sustained success of the Company. With the appointments of both Dato' Hamidah and Datin Sri Azlin, I am pleased to report that we are well above meeting our diversity target of 30% of the Board being women.

RISK MANAGEMENT

We, as the Board, are responsible for determining the nature and extent of the principal risks we are willing to take to achieve our strategic priorities. In addition to its usual ongoing oversight of the Company's risk management process, internal control systems and validation of risk management policies, in 2020, the Board also undertook an in-depth review of the Group's Enterprise Risk Management framework to re-evaluate its appetite framework and at the same time, ensuring that it remains fully relevant in the current context.

CGFR *Further details of our work on risk during the year can be found on pages 34 to 39.*

LOOKING FORWARD

The Board remains fully committed to the highest standards of corporate governance and implementation of best practices. This is an area that requires constant focus, as the corporate governance landscape continues to evolve.

I believe that strong corporate governance supports long-term value creation for our Shareholders and the key to balancing the interests of our Shareholders with those of our wider stakeholders.

Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
Chairman

the Nestlé Malaysia organisation

continues to monitor progress and be kept updated regularly on the manner Nestlé Malaysia is managing the evolving COVID-19 pandemic, and the way the Company can leverage on some of the learnings and positive opportunities, such as increased agility, adaptability and flexibility to improve the ways of working and ensure commitment to the health and safety of our employees.

Support to the Community

Nestlé Malaysia has been supporting the communities through multiple relief initiatives, as well as through multiple volunteering efforts involving many employees, who have provided their time and expertise to support charities and the most vulnerable. This reflects our commitment to the communities in which we operate. Looking beyond short-term, the Board will continue to encourage and be regularly informed on the ongoing initiatives by the Company in this area.

NIS *More information on our activities are on pages 49 to 51 of Nestlé in Society Report.*

Our Shareholders

As a response to the new normal, our Annual General Meeting during the year under review was conducted virtually. This ensured the safety of our Shareholders and paved the way for a new digital channel to add further value and effect greater communication.

Corporate Governance Overview Statement

A CULTURE OF INTEGRITY

NESTLÉ CODE OF BUSINESS CONDUCT

The Nestlé Code of Business Conduct (“NCBC”) is premised on three basic principles:

- (a) avoidance of any conduct that could damage or create risk to the Group or its reputation;
- (b) legal compliance and honesty, to place the Group’s interests ahead of personal or other interests; and
- (c) offers guidance on the Board and Group’s employees’ conduct, responsibilities and behaviour.

The Directors of the Company have a duty to declare immediately to the Board should they be interested in any transaction which is to be entered into directly or indirectly with any entity within the Group.

Employees are similarly under the obligation to declare a conflict of interest to their line manager, the Human Resource Department or to the Legal & Secretarial Department where their personal interests or the interests of a third party compete with the interests of the Group. In such a situation, it can be difficult for the employee to act fully in the best interests of the Group.

PERSONAL DATA PROTECTION

The Nestlé Malaysia Personal Data Guidelines outlines the requirements for the Group and its employees in handling and using personal data in compliance with the Personal Data Protection Act 2010 (“PDPA”).

The Group continuously engages with the relevant Business Units and Functions that process personal data to ensure their privacy practices are updated. This area will continue to be of great importance to the Group in line with the Group’s commitment to protect personal data and privacy under the Nestlé Corporate Business Principle.

NESTLÉ MALAYSIA ANTI-CORRUPTION, GIFTS & ENTERTAINMENT GUIDELINES

Nestlé condemns any and all forms of bribery and corruption. In line with this, the Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines (“Guidelines”) was created to guide the Board and employees on how to act when giving or receiving gifts or items of entertainment or when dealing with government officials, amongst others. It also gives effect to Nestlé’s global policies on bribery and corruption, in particular the Nestlé Corporate Business Principles and NCBC by localising it. The Guidelines enables the Board and employees to maintain the highest level of integrity in conducting the Group’s business. The Group continues to create awareness on the Guidelines through regular communications to its employees and also to its customers and services providers.

In 2020, with the adoption of the new section 17A of the Malaysian Anti-Corruption Commission Act 2009 (“MACC Act”) which introduces corporate liability for bribery and corruption, the Group further strengthened its internal processes to ensure that it is equipped with adequate procedures as recommended by the Prime Minister’s department. This included conducting a review of all our anti-corruption procedures, identifying and closing possible gaps, rolling out a new due diligence process in engagement of suppliers, providing an extensive company-wide training for the Board, Management and employees across every department and undertaking awareness activities and communications. Additionally, all employees equipped with computers completed the e-Learning created to increase awareness on the Guidelines. In conjunction with the International Anti-Corruption Day, a strong tone-from-the-top message was cascaded company-wide from the leadership team to remind all employees about our commitment towards ethics, integrity and honesty. This was accompanied with an informative talk in the area of Anti-Corruption by a legal specialist and an officer from the Malaysian Anti-Corruption Commission.

CONSUMERS

Guided by the Nestlé Quality Policy and the Nestlé Consumer Communication Principles, the Group’s products and brands are developed, manufactured and marketed in a responsible manner. In order to achieve the Group’s vision of uncompromising quality, the Group maintains one toll free consumer hotline, 1 800 88 3433, for all its products with the objective of effectively attending and responding to consumer complaints and feedback.

AND ACCOUNTABILITY

COMPLIANCE FRAMEWORK STRUCTURE

The Compliance framework structure is helmed by the Compliance Steering Committee, chaired by the Chief Executive Officer (“CEO”), and consists of a few members of the Executive Leadership Team and the Legal & Compliance Counsel, and is responsible for setting the Group’s strategy and direction for compliance and to support the successful execution of a Compliance Programme.

The Compliance Programme covers an agenda which includes, amongst others, execution of internal policies and procedures for compliance with applicable laws, rules and regulations, the evaluation of current compliance topics, the Group’s internal controls, monitoring and identification of gaps and risks within the Group and the continuous implementation of employee awareness and engagement activities. Individual working groups are then formed separately to support and implement the Compliance Programme and the directions of the Compliance Steering Committee.

The progress of the implementation of the Compliance Programme is then reported to the Compliance Steering Committee.

In 2020, the main focus of the Compliance Steering Committee was on the strengthening of the Group’s internal processes and increasing awareness to ensure it is equipped with adequate procedures in line with the new section 17A of the MACC Act.

For the financial year ended 31 December 2020, the Compliance Steering Committee convened three meetings.

BUSINESS ETHICS & FRAUD COMMITTEE

The Business Ethics & Fraud Committee (“BEFC”) reviews all complaints and/or allegations lodged, including via the “Speak Up” or “Tell Us” whistleblowing hotlines, or via any channels. It is chaired by the CEO and consists of the Chief Financial Officer (“CFO”), the Executive Director, Legal & Secretarial and the Executive Director, Group Human Resource. The BEFC ensures an investigation on the complaint is effectively conducted and that appropriate action is taken based on the nature of the violation. The Audit Committee reviews the report and updates from the BEFC prior to presentation to the Board.

NESTLÉ RESPONSIBLE SOURCING STANDARD

The Nestlé Responsible Sourcing Standard (“the Standard”) describes the requirements and ways of working that the Group apply together with upstream supply chain third parties to ensure sustainable long-term supply, to achieve the Group’s purpose, and continuously reducing the impact on the planet’s resources. The Standard sets out ways of working with regards to sourcing and production for the Group’s supply chain tiers, from the Group to suppliers, through intermediaries and all the way back to the origins of the goods and services purchased. The Standard defines the way the Group sources through care and respect for individuals, communities and the planet. It delivers on consumers expectations on where the Group’s products come from and how they are made.

The Standard replaces previous versions of the Nestlé Supplier Code, the Nestlé Responsible Sourcing Guideline and the Nestlé Commitment on the Responsible Use of Materials from Agricultural Origin. It contributes to the implementation of the Group’s commitment to the Organisation for Economic Co-operation and Development (“OECD”) Guidelines for Multinational Enterprises, the Core Conventions of the International Labour Organization, and the United Nations Sustainable Development Goals (“SDGs”).

Corporate Governance Overview Statement

COMPETITION LAW AND ANTITRUST POLICY

In addition to competition law trainings conducted for the various Business Units and Functions, the Group also ensures its competition compliance materials, including its own “Handbook on Competition/Antitrust Law” is readily available and accessible by employees across the Group.

The Group has also issued communication and guidelines to remind the Business Units and Functions of their compliance obligations under various competition laws.

In 2020, the Group extended its co-operation and assistance to the Malaysia Competition Commission (“MyCC”) in its nationwide market review conducted on the Service Sector in Malaysia (Wholesale and Retail for Selected Products) under the Competition Act 2010.

The Group will continue to roll-out compliance programmes to ensure that existing business transactions and practices continue to adhere to current competition laws and are conducted within the framework of the Nestlé Group Antitrust Law Policy.

WHISTLEBLOWING

The Group’s whistleblowing procedures allow employees, suppliers or third parties to report any potential incident of non-compliance within the Group.

For employees, they are encouraged to raise any suspicions of wrongdoing, incidences of non-compliance, malpractice or impropriety in the management of the Group’s business through the Group’s whistleblowing channel specifically called “Speak Up”. Under “Speak Up”, employees can lodge complaints by way of telephone, webmail or email. This is in addition to being able to raise issues directly to their line managers or to the Market Compliance Officer.

For external parties such as suppliers, customers or any other third parties, they may also avail themselves to a similar whistleblowing hotline called “Tell Us”, whereby complaints can be made by telephone, webmail or email as well.

The identity of the whistleblower is safeguarded at all times and protected from coercion, retaliation or reprisal for their cooperation. For this purpose, both the “Speak Up” and “Tell Us” whistleblowing hotlines are operated by an independent third party service provider. All reports will be properly investigated and treated with confidence by the BEFC. In 2020, eight non-compliance complaints were received under the whistleblowing system, all of which have been duly investigated and necessary actions have been taken.

Speak Up (Employees)

Dial : 1800-88-4307 (Access code : 41830)

Email : Noncompliance.mailbox@my.nestle.com

Web : <https://www.speakupfeedback.eu/web/nm34k/my>
(Access Code: 41830)

Tell Us (External)

Dial : 1800-88-4307 (Access Code: 91738)

Email : Noncompliance.mailbox@my.nestle.com

Web : www.speakupfeedback.eu/web/A2VY73
(Access Code: 91738)

NESTLÉ CORPORATE BUSINESS PRINCIPLES (“NCBP”)

We recognise the importance of trust in the brand. For Nestlé to be successful, we must earn the trust of our employees, consumers, customers, suppliers, Shareholders and the wider society by acting with integrity at all times.

The NCBP provides guidance to the Board and all employees on how to do business in an ethical and principles-based manner in every situation.

In July 2020, the NCBP was updated to reflect the evolution of culture and society. However at the core, our values and ethical principles remain the same.

The NCBP focuses on:

Consumers:

Emphasising nutrition, health and wellness, quality assurance and product safety as well as responsible and reliable consumer communication.

Our People:

Emphasising human rights, diversity and inclusion as well as safety and health at work.

Value Chain:

Emphasising responsible sourcing, honesty, integrity and fairness to our customers and business partners, and commitment to environmental sustainability.

Business Integrity:

Emphasising ethics, privacy and ethical data management.

Transparent Interaction and Communication:

Emphasising transparent internal interaction, communication and responsible external engagement and advocacy.

Compliance:

Emphasising a “doing the right thing for the right reason” mindset, a robust compliance assessment, communication and training programme, and accessible grievance reporting mechanisms have been put in place for both internal and external stakeholders.

NESTLÉ MALAYSIA CHARTER: INFANT FORMULA POLICY

The Group firmly endorses the International Code of Marketing of Breast-milk Substitutes (“WHO Code”) that aims to protect, promote and support breastfeeding globally. We adhere to all national government measures in implementing the WHO Code and we have voluntarily and unilaterally applied the WHO Code. To this end, the Group has adopted the Nestlé Malaysia Charter: Infant Formula Policy to ensure that all aspects of its business operations respect a mother’s freedom of choice and do not in any way undermine the superiority of breast milk. Our Nestlé Malaysia Charter: Infant Formula Policy further conforms to the principles of the Malaysia Code of Ethics for the Marketing of Infant Foods and Related Products which seeks to regulate appropriate marketing, distribution and proper use of breast milk substitutes in Malaysia.




WHO CODE OMBUDSPERSON SYSTEM

To ensure the implementation and efficacy of the Nestlé Malaysia Charter: Infant Formula Policy, the Group has put in place an internal WHO Code Ombudsperson System that allows any of the Group’s employees to anonymously and outside the line management structure, alert the Group via the appointed Ombudsperson of potential policy violations or raise concerns with regards to the marketing of infant nutrition products. Confidential investigations are conducted by our appointed Ombudsperson. The Group also affords the public a platform to report of any compliance concerns via the Company’s website.

Corporate Governance Overview Statement

OUR GOVERNANCE PRACTICES AT A GLANCE

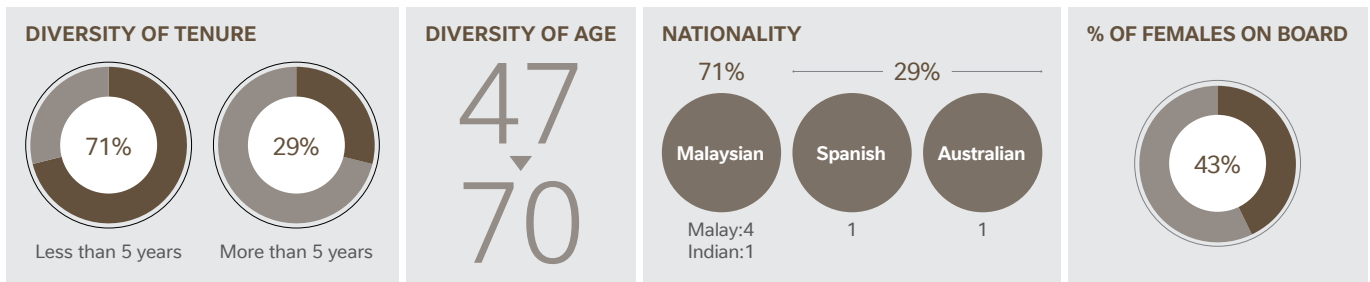
BOARD OF DIRECTORS

 Independent
  Non-Independent
  Executive Directors

THE BOARD

The role of the Board is regulated in a formal Board Charter, which defines its authority and power. While retaining overall accountability, the Board has delegated authority to the CEO to run the day-to-day affairs of the Group and the CEO is supported by the Executive Leadership Team. The Board also created Board Committees to enable the Board to discharge its duties and responsibilities properly and to fulfil its decision-making process effectively. The Board plays a pivotal role in strategic planning and establishing benchmarks to measure the Group’s strategic objectives. The Executive Directors implement strategies and operational decisions, and the Non-Executive Directors provide an independent perspective and complement the skills and experience of the Executive Directors. They assess strategy and performance, internal control, risk management, governance and sustainability efforts of the Group.

The Board Charter is available on the Company’s website at www.nestle.com.my



SKILLS AND EXPERIENCES OF THE DIRECTORS

Business Operations	Government Liaison
Corporate Knowledge	Global Experience
Digital	Human Resource
Economics	Insurance
Finance	Investor Relations
Communication and Multimedia	Medical and Health
Governance	Sales
Risk Management	Strategy

BOARD ROLES AND RESPONSIBILITIES

The positions of Chairman and Chief Executive Officer are held by different individuals.

Chairman
Responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda.

Chief Executive Officer
Responsible for leading and managing the Group’s business within a set of authorities delegated by the Board and for the implementation of the Group’s strategy and policy.

Independent Directors
The primary responsibility of an Independent Non-Executive Director is to protect the interests of minority Shareholders and other stakeholders.

- MATTERS RESERVED FOR THE BOARD**
- 1 Review, approve and adopt the Company’s strategic plans and annual budgets.
 - 2 Declaration of dividends, approval of financial statements, accounts and quarterly reports of the Company.
 - 3 Acquisition, divestment or closure of business.
 - 4 Establishment of new substantial businesses.

100%
MEETING ATTENDANCE RATE

AC

Audit Committee

GNCC

Governance, Nomination and Compensation Committee
(formerly known as Nomination and Compensation Committee)

MEETING ATTENDANCE 2020

	Board	AC	GNCC
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail <i>Chairman, Non-Independent Non-Executive Director</i>	5 out of 5	4 out of 4	2 out of 2
Dato' Mohd. Rafik Shah Mohamad <i>Independent Non-Executive Director</i>	5 out of 5	4 out of 4	2 out of 2
Dato' Dr. Nirmala Menon <i>Independent Non-Executive Director</i>	5 out of 5	-	1 out of 1
Dato' Hamidah Naziadin (appointed on 1 May 2020) <i>Independent Non-Executive Director</i>	3 out of 3	-	1 out of 1
Datin Sri Azlin Arshad (appointed on 1 May 2020) <i>Independent Non-Executive Director</i>	3 out of 3	3 out of 3	-
Juan Aranols <i>Non-Independent Executive Director</i>	5 out of 5	-	-
Craig Connolly <i>Non-Independent Executive Director</i>	5 out of 5	-	-
Tan Sri Datuk (Dr.) Rafiah Salim (retired on 30 April 2020) <i>Independent Non-Executive Director</i>	2 out of 2	1 out of 1	1 out of 1
Dato' Frits van Dijk (retired on 30 April 2020) <i>Independent Non-Executive Director</i>	2 out of 2	-	1 out of 1

Executive Directors

Implement strategic direction, operational decisions and managing the day-to-day responsibilities of the Group, within the set bounds of authorities delegated by the Board.

Non-Executive Directors

Play a key role in providing a solid foundation for good corporate governance and ensure that no individual or group dominates the Board's decision-making.

Company Secretary

Plays an advisory role to the Board in relation to the Company's policies and procedures, and compliance with relevant regulatory requirements.

5

Significant capital investment and disposal of material assets from the existing business to a third party.

6

Increase or reduction of the Company's subsidiary(ies)'s issued capital.

7

Any other form of corporate restructuring not previously listed.

8

The change of name of any company within the Group and establishment of any new subsidiary company.

Corporate Governance Overview Statement

LEADERSHIP AND EFFECTIVENESS

Good governance is essential to the long-term success of a company. The Board embraces openness and accountability in the boardroom and promotes these throughout the business. One of the most important roles of corporate governance is to ensure that strategic decisions are made with a long-term view of the health of the Company.

At Nestlé Malaysia, the Board works to ensure that governance structures remain appropriate and are updated when necessary to reflect the market and community within which the Group operates.

NESTLÉ MALAYSIA'S GOVERNANCE STRUCTURE AND PRACTICES CREATE VALUE FOR ALL ITS STAKEHOLDERS BY:

**Protecting the future
of the Group through
its sustainable
practices**

**Building
legitimacy
through ethical
leadership**

**Ensuring
the integrity and
quality of financial
reporting**

**Maintaining good
reputation through
responsible
behaviour**

COMMITMENT

All Directors are committed and devoted to carrying out their roles and responsibilities. They commit to allocating sufficient time to the Company to discharge their responsibilities effectively. The time commitments of Non-Executive Directors are considered by the Governance, Nomination and Compensation Committee at appointment, and reviewed annually.

The Board recognises that Board members may hold external directorships and other outside business interests, and the Board acknowledges that the Company will benefit significantly from its Directors' varied boardroom exposure. The Board reviews on an annual basis the Directors' declarations of the number and nature of their external directorships in other companies and/or organisations that the Directors hold, and their assurances on time commitment in carrying out their duties and responsibilities to the Company, to ensure that any additional appointments will not have any impact to their time commitment and to their roles in the Company. At present, none of the Directors hold more than five directorships in any other public listed companies at any point of time.

Details of the Directors' external directorships can be found in their respective biographies on pages 48 to 59 of the Annual Review Report. Before committing to an additional appointment, the Board has set procedures for members to comply with before accepting any new external board appointment. The Chairman and CEO will decide on the acceptance of request and consider if there is a potential conflict in the pending appointment. It will also be tabled at the Governance, Nomination and Compensation Committee meeting notwithstanding Paragraph 15.06 of the Listing Requirements which allows for a Director to sit on the board of up to five public listed companies. Such notification of new directorship is expected to include his/her continued time commitment to the Company.

BOARD IN ACTION DURING THE YEAR

The Chairman and the Company Secretary will ensure that the Directors receive clear, timely information on all relevant matters. Board and Board Committee papers and reading materials are circulated at least five business days ahead of meetings to ensure that there is adequate time for the Directors to read, have an understanding of the subject matter, be prepared to deal with matters to be discussed at the meetings and to enable the Board and Board Committees to make effective decisions. This facilitates a robust and informed discussion by the Board. Board calendars and structured agendas are set in advance and all Directors are expected to attend the scheduled Board meetings and relevant Board Committee meetings in addition to the Annual General Meeting.

Where there is an urgent need for ad hoc meetings, the Company Secretary in consultation with the Chairman, will arrange for such meetings as and when necessary.

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures clear and adequate understanding of the subject matter. For any urgent matters, and for additional documents that are sent less than five business days, the Management Team will take the Board through the documents for a more detailed explanation.

All Directors have unrestricted access to the Management Team, including the Company Secretary. If required, the Directors can seek independent professional advice on matters in furtherance of the Directors' duties available under appropriate circumstances and at the Company's expense.

Matters considered/reviewed/deliberated/approved:-

Strategy	Financial
<ul style="list-style-type: none"> • Group's strategies and plans, and the implementation thereof. • Business and operational activities. • Innovation and Business Initiatives. • Healthier Choice Logo ("HCL") 2.0 Updates. • Plant Based Meal Solution Project. • MILO Business Strategy. • Steps and actions taken in view of the COVID-19 pandemic for employees, business and operations. 	<ul style="list-style-type: none"> • Cumulative full year results for the financial year ended 31 December 2019 and cumulative first half year results for the financial year ended 31 December 2020. • Directors' Report and Audited Financial Statements for the financial year ended 31 December 2019. • Quarterly Results. • Report on Company's quarterly and previous year's performance and outlook for the year. • Dividend payments and solvency position of the Company. • Financial Results announcement. • Compliance with the Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements. • General budget. • Capital expenditure budget. • Tax updates. • Financial results announcements to Bursa Malaysia Securities Berhad ("Bursa Malaysia"). • Recurrent Related Party Transactions by the Group. • Quarterly and full year Nestlé S.A. results.

Corporate Governance Overview Statement

Matters considered/reviewed/deliberated/approved:-

Shareholders and Engagement

- Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transactions of a revenue or trading nature.
- Preparation for the 2020 Annual General Meeting (Nestlé Malaysia's First Virtual AGM).
- Quarterly Analyst and Investor briefings.
- Update on Share Transfer of Nestlé S.A.

Governance

- Group's compliance with the Listing Requirements.
- Compliance with the MCGG and Companies Act 2016.
- Amendments/updates to the Listing Requirements and Companies Act 2016.
- MCGG gap assessment and action plans therefrom.
- Company's announcements released to Bursa Malaysia.
- Submission of the semi-annual returns to Bursa Malaysia.
- Directors' Written Resolutions passed by the Board.
- Minutes of Meetings of the Board Committees.
- Board Committees' reports and recommendations.
- Board Charter and the Terms of Reference of the Board Committees.
- Renaming of Nomination and Compensation Committee to Governance, Nomination and Compensation Committee.
- Appointment of Ernst & Young PLT as the Group's external auditors for the financial year ending 31 December 2020 and to ensure the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements, and for the Directors to fix their remuneration.
- Diversity Policy.
- Compensation Policy.
- Corporate Governance Report and the Annual Report 2019.
- Board Effectiveness Evaluation ("BEE") results.
- Composition and skills of the Board and Board Committees.
- Performance and effectiveness of the Board, Board Committees and individual Directors.
- Other directorship of the Board members.
- Board Improvement Programme based on the results of the BEE.
- Nestlé Corporate Business Principles, Nestlé Code of Business Conduct, Nestlé Corporate Governance Guidelines and the Nestlé Malaysia Anti-Corruption Gifts & Entertainment Guidelines.
- Section 17A of the MACC Act, the Group's Anti-Corruption Initiatives and Awareness Programme.
- Update from the Creating Shared Value Council.
- WHO Code Compliance update.
- Effectiveness of Board meetings.
- Board Agenda for 2021.

Matters considered/reviewed/deliberated/approved:-**Risk Management and Internal Control**

- Enterprise Risk Management, mitigating measures and updates.
- Cyber security risks of the Group.
- Regulatory landscape risks impacting the business.
- Corruption risks.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Distributors' credit risks and management.
- Reports from the Nestlé Internal Audit, the recommendations and management responses.
- Reports from the external auditors.
- Statement of Risk Management and Internal Control for the Annual Report.

Leadership and People

- Board succession plans, Board composition and Board Diversity (including gender, ethnicity/cultural background and age diversity).
- Tenure of Directors.
- Retirement of Directors by rotation, the re-election/retention of Directors.
- Board trainings.
- Appointment of new Directors.
- Appointment of new Board Committee members.
- Recommendation for the fees and benefits to be paid to the Non-Executive Directors.
- Compensation of the Executive Directors.
- Compensation of the Nestlé Leadership Team.
- Compensation Direction for the employees of the Group.
- Management development of the Nestlé Leadership Team.
- Succession plan of the Nestlé Leadership Team.
- Status of the Collective Agreement negotiations with the Food Industry Employees Union.
- Human Resource updates.

Corporate Governance Overview Statement

THE COMPANY IS GUIDED BY THE FOLLOWING PROCESSES AND PROCEDURES FOR THE NOMINATION OF NEW CANDIDATES TO THE BOARD:-

- 1 Identification of Skill/Gap
- 2 Selection of Candidates
- 3 Assessment of Candidates
- 4 Initial Interaction with Candidates
- 5 Review by Governance, Nomination and Compensation Committee
- 6 Recommendation for Board's Approval
- 7 Board Approval

THE GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE IN MAKING ITS RECOMMENDATION ON CANDIDATES TO THE BOARD WILL CONSIDER THE CANDIDATES':-

- 1 Skill, knowledge, competencies, expertise and experience
- 2 Professionalism
- 3 Integrity
- 4 Commitment, potential contributions and performance
- 5 Industry standing

In the case of candidates for the position of Independent Non-Executive Directors, the Governance, Nomination and Committee will also evaluate the candidate's ability to discharge such responsibilities/functions as expected from an Independent Non-Executive Directors.

APPOINTMENTS TO THE BOARD

The process for the nomination and appointment of Directors is an important process as it determines the composition, quality and competency of the Board. The Governance, Nomination and Compensation Committee is entrusted by the Board to review candidates for the appointment to the Board, and the Committee is guided by the needs of the Board and the Company's Diversity Policy.

RE-ELECTION/RETENTION OF DIRECTORS

Appointments to the Board are formal and transparent. Proposals for election/re-election/retention to the Board are reviewed and assessed by the Governance, Nomination and Compensation Committee and are considered by the Board as a whole.

Re-election of Director

The Constitution of the Company provides that, at every Annual General Meeting ("AGM") of the Company, one-third of the Directors shall retire from the Board by rotation. If eligible, such Directors may offer themselves for re-election.

At the upcoming AGM, the following Directors will be retiring in accordance with Article 97.1 of the Company's Constitution, and the Governance, Nomination and Compensation Committee upon its evaluation has recommended that the following Directors are eligible for re-election:

- i. **Dato' Dr. Nirmala Menon**
- ii. **Juan Aranols**

Dato' Dr. Nirmala Menon

Dato' Dr. Nirmala Menon has informed the Company that she does not wish to offer herself for re-election. She will retain office until the conclusion of the 37th AGM and will retire in accordance with Article 97.1 of the Constitution of the Company.

Juan Aranols

Juan Aranols has been the CEO and a member of the Board of Directors since 1 December 2018. Prior to his transfer to Nestlé Malaysia, he was the CFO for Zone Asia, Oceania and Africa ("AOA") and also the Zone category lead for Confectionery and Nestlé Professional. The recommendation to re-elect Juan Aranols is based on his strong leadership as the CEO of Nestlé Malaysia and his ability to steer the Company through very challenging times, especially in the year 2020 with very strong results driven strategies and approaches. The re-election of Juan Aranols will not only allow him to share his vast experience, knowledge and business acumen with the Board, but further strengthen his role as CEO in leading the Company to greater heights and greater performance in the coming financial year.

DIRECTORS' INDUCTION AND DEVELOPMENT

Directors are provided with the Director's Handbook that contains the meeting calendar and Board Agenda for the year, Board Charter, Terms of Reference for the Audit Committee and the GNCC, Nestlé's Guidelines and Policies, the MCCG and other relevant documents relevant to their roles and responsibilities as Directors of the Company. The Directors are also kept abreast with current changes and development of new statutory and regulatory requirements such as the Companies Act 2016, Section 17A of the MACC Act and the Listings Requirements. If required, meetings are arranged with the Chairman, other Directors and/or the Nestlé Leadership Team to enable Directors to familiarise themselves with the Group's businesses and operations.

Ongoing development for the Directors include management presentations, access to internally and externally run training programmes and the sharing of relevant industry and regulatory updates. The list of trainings attended by each of the Director and the Company Secretary is set out in pages 16 to 17 of this Corporate Governance and Financial Review Report.

With the appointment of the new Directors to the Board on 1 May 2020, the Company designed a tailored and thorough Induction Programme for the two new Directors, facilitated by the Company Secretary and monitored by the Governance, Nomination and Compensation Committee. All other Directors were also invited to participate in the Induction Programme.



Dato' Hamidah Naziadin
Independent Non-Executive Director



Datin Sri Azlin Arshad
Independent Non-Executive Director

Due to the COVID-19 pandemic, the Induction Programme was delivered via a mixture of face-to-face and online meetings. The Induction Programme will continue in 2021 with factory and market visits.

Induction Programme

Beverages Business	Legal & Secretarial
Breakfast Cereals Business	Milks Business
Communication & Marketing Services	MILO Business
Confectionery Business	Nestlé Health Science
Corporate Affairs	Nestlé Nutrition
Food Business and Product Tasting	Nestlé Professional
Group Human Resource	Ready-to-Drink Business
Ice Cream Business	Supply Chain
Corporate Governance	

Site Visit to Nestlé Distribution Center ("NDC")

Over 20 Hours of Induction Training

Corporate Governance Overview Statement

LIST OF TRAININGS

In 2020, on continuous basis, the Board undertook an assessment of the training needs of its Directors. The Directors and the Company Secretary have since attended the following training sessions, internally and externally, to further enhance their skills and knowledge and enable them to discharge their duties and responsibilities more effectively:

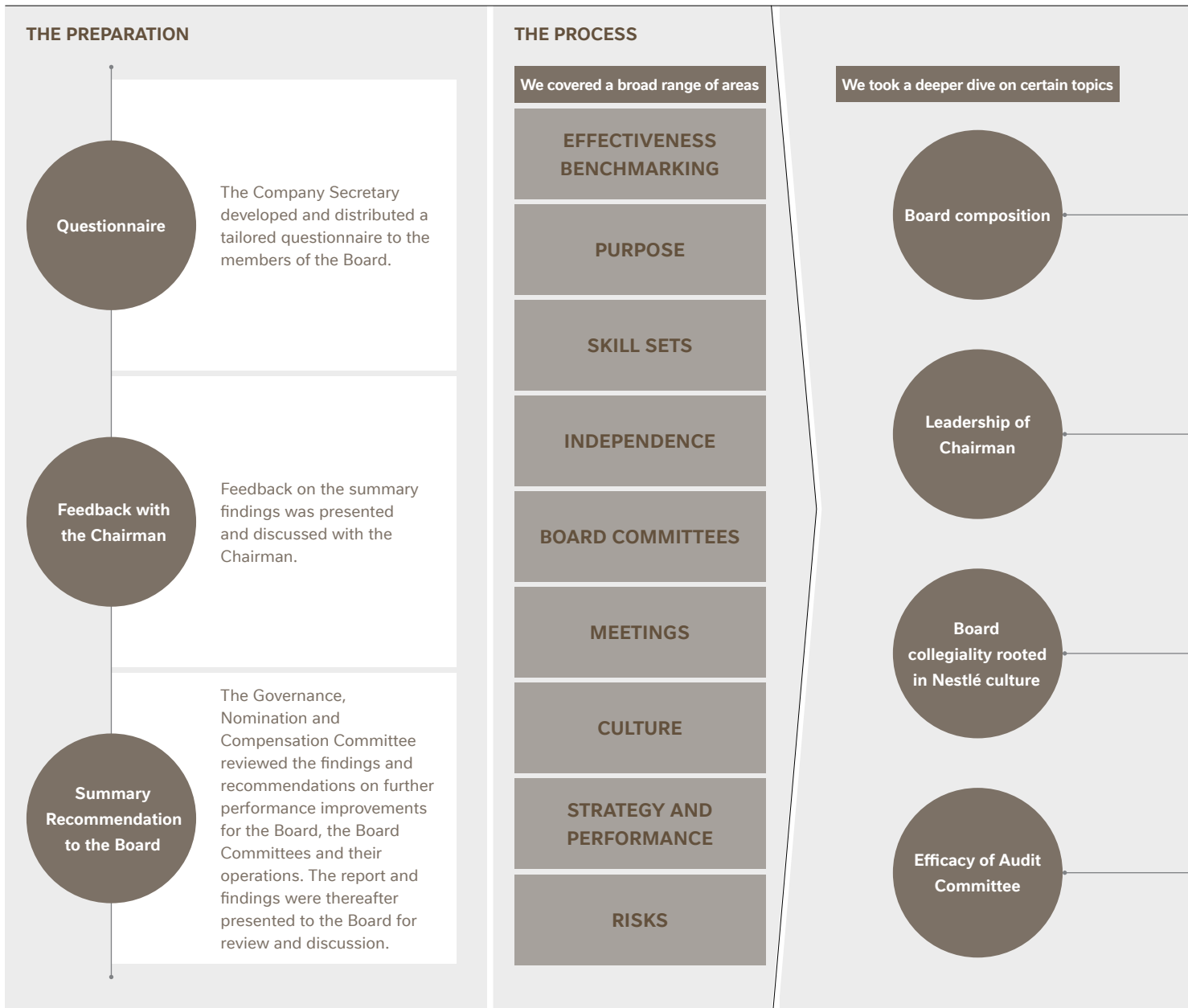
Name of Director	Internal Training/Overview of:-	External Training
Tan Sri Dato' Seri Syed Anwar Jamalullail	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition • Supply Chain and site visit to NDC 	<ul style="list-style-type: none"> • Reinventing Cybersecurity with Artificial Intelligence (Malaysian Institute of Accounts) • In-house Directors' Training – Sharing Session on Property Development and Digital Transformation Journey (SP Setia) • Module 1 Directors as Gatekeepers of Market Participants (Securities Industry Development Corporation (“SIDC”)) • Module 2A Business Challenges and Regulatory Expectations – What Directors Need to Know (Equities & Futures Broking) (SIDC) • Module 3 Risk Oversight and Compliance – Action Plan for Board of Directors (SIDC) • Module 4 Emerging and Current Regulatory Issues in the Capital Market (SIDC)
Dato' Mohd. Rafik Shah Mohamad	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition 	<ul style="list-style-type: none"> • Corporate Governance Symposium 2020 (Malaysian Institute of Accounts) • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners)
Dato' Dr. Nirmala Menon	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition 	<ul style="list-style-type: none"> • The Digital Boardroom (Shaping Policy, Business & Finance in a time of Crisis) (Financial Times) • Data Analytics for Business (Melbourne Business School) • Boards & Post COVID-19 Governance (IMD) • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners) • Business Foresight Forum (BFF 2020) Virtual Governance - “Evolutionary Change to Revolutionary Impact” (SIDC)
Dato' Hamidah Naziadin	<ul style="list-style-type: none"> • On-boarding Induction Programme • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition 	<ul style="list-style-type: none"> • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners)

Name of Director	Internal Training/Overview of:-	External Training
Datin Sri Azlin Arshad	<ul style="list-style-type: none"> • On-boarding Induction Programme • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition 	<ul style="list-style-type: none"> • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners) • The Role of Audit Committees in Ensuring Organisational Integrity, Risk & Governance (ICDM)
Juan Aranols	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition • Anti-Corruption, Gifts & Entertainment • Sexual Harassment Prevention • Healthy Lives • Data Privacy • Leadership Responsibility 	<ul style="list-style-type: none"> • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners) • UN Global Compact Country Consultation Workshop on Sustainable Development Goals (SDG 16)
Craig Connolly	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Plant Based Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition • Anti-Corruption, Gifts & Entertainment • Sexual Harassment Prevention • Healthy Lives • Data Privacy • Leadership Responsibility 	<ul style="list-style-type: none"> • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners)
Tengku Ida Adura Tengku Ismail	<ul style="list-style-type: none"> • Group Human Resource • Technical & Production : Vegetable Meal Solution • HCL 2.0 • Creating Shared Value • Exports Business Development • Confectionery Business • Nestlé Nutrition • Anti-Corruption, Gifts & Entertainment • Sexual Harassment Prevention • Healthy Lives • Data Privacy • Leadership Responsibility • Nestlé Global Legal & Compliance Conference 	<ul style="list-style-type: none"> • The Anti-Bribery and Corruption Awareness Training (Messrs. Wong & Partners) • UN Global Compact Country Consultation Workshop on Sustainable Development Goals (SDG 16) • Violations of the Companies Act 2016 : Oversight by Directors and Secretaries (Malaysian Association of Companies Secretaries) • Capital Reduction & Beneficial Ownership (Malaysian Association of Companies Secretaries) • Decoding Transaction & RPT Rules (CKM Advisory Sdn. Bhd.) • Industry Briefing on ESG Shariah-Compliant Screening for Securities (Securities Commission Malaysia)

Corporate Governance Overview Statement

BOARD EFFECTIVENESS EVALUATIONS

The responsibilities of the Board have significantly changed, requiring an even wider range of skills and greater time commitment. The board is not just a governing body; boards are being leveraged as a competitive advantage to complement and support management, and add value. Demand for exceptional, highly qualified board of directors is growing and increasingly, specialist skills are required in the boardroom.



The Board undertakes a formal review of its performance and its Committees each year. In 2019, the Board Effectiveness Evaluation (“BEE”) was conducted by an Independent External Evaluator. The 2020 BEE review was conducted internally, facilitated by the Company Secretary. The results of the review were, once again, extremely positive. It endorsed the high performing boardroom culture, Non-Executive Directors’ active participation and continuous challenge to Management, that is actively promoted by the Chairman. The review confirmed the strength of the Board and identified some development opportunities for the Board, which will be taken into account to further improve the Board performance in 2021.

What we found

- The Board has the right balance of skills, experience and expertise, a healthy diversity.
 - Strong presence of Independent Directors and appropriate balance between Non-Executive and Executive Directors.
 - Dedicated Board Committees to oversee specialised areas in a focused manner.
-
- Chairman exhibits excellent leadership qualities and vision, has the ability to steer Board meetings well, contribute diverse ideas and opinion.
 - The Board Committee Chairmen brought value to the Board and provided appropriate reporting and recommendation to enhance Board’s decision making.
-
- The Board works collectively as a collegial unit of professionals that is rooted within the Company’s intrinsic culture and values.
 - There is vibrant, rigorous and constructive engagement that enhances the quality of decision making and deliberation.
-
- The Audit Committee is well-positioned to apply a critical and probing view on the Company’s transactions and effectively challenge Management’s assertions on the financials.
 - The composition of the Audit Committee consists of experience and high-calibre individuals, various professional background and experience, robust body of knowledge and experience in performing its fiduciary duties and oversee the Company’s financial accounts.
 - The Audit Committee is very vigilant in monitoring efforts pertaining to the transactions undertaken by the Management.

We also looked for opportunities

Strategic oversight

Further opportunities exist for a greater Board role in strategic formulation and implementation.

Board skillset digital and industry

The Board has opportunities to enhance their knowledge and understanding of the digital and industry regulatory landscape.

Efficacy of remuneration functionalities

The dynamic of the nature and complexity of the Company against current remuneration levels can be further reviewed.

Corporate Governance Overview Statement

DIRECTORS' COMPENSATION

The Nestlé compensation policy for the Board of Directors supports the long-term development of the Company in a highly dynamic environment, while aiming to fulfil all stakeholder's requirements and keeping an acceptable risk profile. Our compensation principles apply different perspectives in order to optimally balance all relevant perspectives:

- Organisational perspective: how is the compensation policy aligned with the mission, vision and long-term strategy of the Group?
- Internal perspective: is this compensation policy consistent with the compensation policy of Nestlé overall?
- External perspective: does the compensation policy provide for competitive compensation in relation to the external world?
- Stakeholder perspective: does the compensation policy take into account the interests and sensitivities of the various stakeholder groups and does it strike a fair balance?

Based on the principles above, the Company's Compensation Policy which sets out the criteria to determine the Director's compensation, include:

- complexity of the Company's activities;
- level of responsibilities;
- expertise and experience;
- industry benchmarks against similar companies;
- market practice; and
- Executive Directors' compensation as guided by the compensation framework of its ultimate holding company, Nestlé S.A.

The Non-Executive Directors receive fees and allowances for their Board and Board Committee participation. When overseas travel is required, all reasonable travelling and accommodation expenses are paid by the Company.

The Governance, Nomination and Compensation Committee recommends to the Board the proposed fees and allowances to be paid to each Non-Executive Director based on the approved Board remuneration, in line with the Compensation Policy. The Board then reviews the proposed fees and allowances, and approves for it to be tabled for the Shareholders' approval at the AGM.

The composition of the compensation for the Non-Executive Directors are as follows:

Fees for acting as a Director

A

A fixed fee is allocated to each Non-Executive Director, a fee premium is allocated to the Chairman of the Board in view of additional accountabilities and responsibilities assumed by the Chairman.

Fees for assuming additional responsibilities

B

Additional fees are allocated to Non-Executive Directors who assumed more responsibilities via their appointments in various Board Committees. A fee premium is allocated to the Chairman of the respective Board Committees in view of their additional accountabilities and responsibilities.

Meeting attendance allowance

C

An attendance allowance is provided to Non-Executive Directors to compensate them for their personal expenses to attend the meetings of the Board and Board Committees.

The Non-Executive Directors' fees for a particular financial year will only be paid upon approval by the Shareholders at the subsequent year's AGM.

A meeting allowance of RM2,000 will be paid to each Non-Executive Director for attendance at each Board and Board Committee meeting.

The breakdown of the Directors' compensation paid in 2020 is as follows:

Name	Fees ⁽²⁾	Salary ⁽³⁾	Emoluments & Benefits ⁽⁴⁾	Total
	RM	RM	RM	RM
RM, in Gross ⁽¹⁾				
Tan Sri Dato' Seri Syed Anwar Jamalullail	445,000	0	22,000 ⁽⁵⁾	517,000
Dato' Mohd Rafik Shah Mohamad	250,000	0	22,000	272,000
Tan Sri Datuk (Dr.) Rafiah Salim (retired on 30 April 2020)	215,000	0	8,000	223,000
Dato' Frits van Dijk (retired on 30 April 2020)	180,000	0	6,000	186,000
Dato' Dr. Nirmala Menon	150,000	0	12,000	162,000
Dato' Hamidah Naziadin (Appointed on 1 May 2020)	0	0	8,000	8,000
Datin Sri Azlin Arshad (Appointed on 1 May 2020)	0	0	12,000	12,000
Juan Aranols	0	1,318,740	3,108,292	4,427,032
Craig Connolly	0	747,000	1,479,627	2,226,627
TOTAL	1,240,000	2,065,740	4,677,919	8,033,659

⁽¹⁾ Numbers are provided before tax.

⁽²⁾ Fees paid to Non-Executive Directors.

⁽³⁾ Salary paid to Executive Directors.

⁽⁴⁾ Benefits and other emoluments include bonuses, allowances, provisions for leave passage, attendance fees, club membership, share-based payments by Nestlé S.A. and other benefits, allowances.

⁽⁵⁾ The 2020 leave passage for Tan Sri Dato' Seri Syed Anwar Jamalullail will be paid in 2021, due to travel restrictions in 2020.

The Compensation Policy is available on the Company's website at www.nestle.com.my

REMUNERATING HUMAN CAPITAL

Our Compensation Policy is designed to support our overall purpose of unlocking the power of food to enhance the quality of life for everyone, today and for generations to come. Our policy places our people at the heart of our business. Our aim is to attract, engage and retain the very best talent from across our global sector. To determine the structure and variability of each element of pay, the Governance, Nomination and Compensation Committee considers the following compensation principles:

Competitive market positioning and opportunity

To attract, retain and engage the executive talent that we need to realise our purpose and deliver our strategy, our compensation arrangements need to be sufficiently competitive but not excessive.

Pay aligned with sustainable long-term performance

The mix between both fixed and variable pay, as well as the balance between rewarding short versus long-term performance, are critical to ensure that we reward those behaviours that will lead to the realisation of our long-term ambitions without compromising short-term gain.

Incentive metrics aligned with our strategy and main Key Performance Indicators (KPIs)

The performance measures selected to determine both our annual bonus and long-term incentive plans have been carefully considered to focus on a simple and effective selection of those key drivers of our strategy and long-term value creation for our Shareholders.

Mindful of our wider stakeholder responsibilities

Our Executive Directors' pay arrangements are not only focused on financial returns but also mindful of performance against our wider long-term stakeholder goals. The Governance, Nomination and Compensation Committee takes great care to set appropriate targets that do not compromise our wider stakeholder aspirations.

Corporate Governance Overview Statement

ACCOUNTABILITY

FINANCIAL CONTROL AND REPORTING

Financial procedures and standards have been put in place to assist the Board in discharging its duty of ensuring that the Group maintains adequate and accurate records for purposes of the timely reporting of its financial position. This ultimately results in greater stakeholder communication in view of contributing to more informed assessments of the Group’s performance and prospects. For the year under review, no accounting irregularities were reported by either internal or external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board assumes responsibility for the effective management of risks across the Group, determining our risk appetite as well as ensuring the implementation of adequate and appropriate internal controls throughout the Group. The Board has delegated responsibility for oversight of risk management to the Audit Committee.

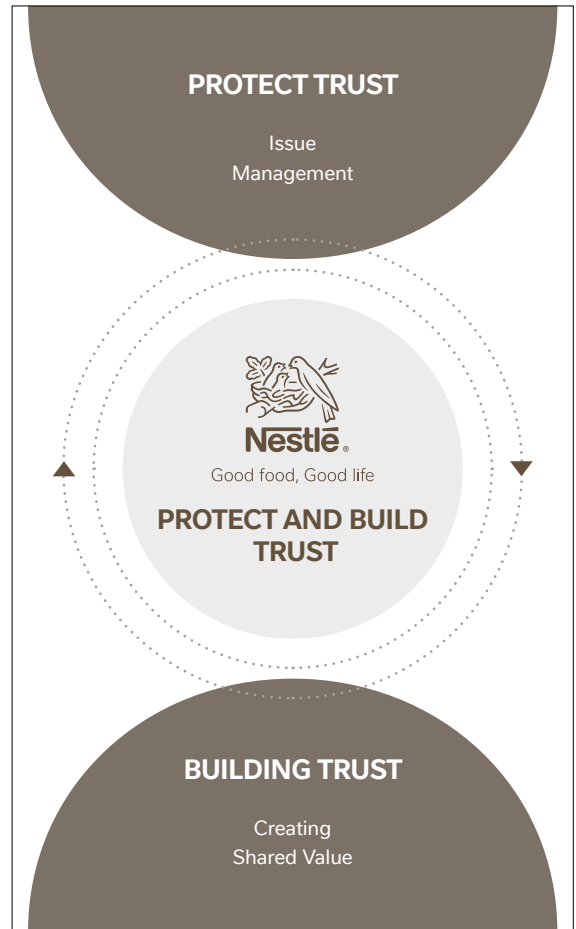
The Audit Committee provides oversight by reviewing the effectiveness of the Group’s systems for risk management, internal control and financial reporting. The Audit Committee also ensures the required in-depth review into specific financial, operational and regulatory areas of the business. These reviews are critical to the role of the Audit Committee as they allow a forum to meet key members of the Management Team and provide independent challenge to their activities.

The Group has in place an internal control environment to protect the business from identified material risks. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and the Audit Committee has the responsibility to ensure the effectiveness of those controls.

The Board confirms that it has monitored the Group’s risk management and internal control system and there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group. The process is regularly reviewed by the Audit Committee on behalf of the Board to ensure that the procedures implemented continue to be effective and, where appropriate, recommendations are made to the Management Team to improve the procedures. The Group system of internal financial control aims to safeguard the Group’s assets, ensures that proper accounting records are maintained, that the financial information used within the business and for publication is reliable, that business risks are identified and managed, and that compliance with appropriate legislation and regulation is maintained.

ENGAGING WITH STAKEHOLDERS

Stakeholder relations are critical for the sustainable growth of our business and therefore we seek to maintain an open, permanent, and transparent dialogue with these parties. Particularly important are those groups formed primarily by Shareholders and investors, communities, employees, and consumers. This is due to both the influence they have on the business and the impact they have on our operations and organisational strategies. Government authorities, regulatory agencies, non-governmental organisation, suppliers, customers/retailers, industry and trade associations, academia, and the media complete the stakeholder framework with which we also maintain engagement activities.



CGFR For further information on Nestlé Internal Audit, please refer to pages 29 and 36 of this report.

CGFR For further information on Risk Management and Internal Control, please refer to pages 34 to 39 of this report.

The table below gives an overview of how the views and interests of our stakeholder groups are represented or reported at Board level, and are factored into the Management and Board's decision making processes.

		Engagement Methods	Priority Issues
		STAKEHOLDER GROUPS	<ul style="list-style-type: none"> • Ongoing education and training programmes • People Development and Performance • Intranet, newsletters and internal e-announcements • Townhall meetings and roadshows • Safety, health and environment initiatives • Employee volunteer programme • Employee events • Employee Survey • Nestlé Recreational Club
	<ul style="list-style-type: none"> • Corporate and brand websites • Consumer relationship marketing • Social media channels • Corporate and brand campaigns • Consumer research • Advertisements and promotions • Exhibitions and showcases • Product packaging • 24/7 Consumer Services Hotline 	<ul style="list-style-type: none"> • Food safety and quality • Halal practices • Nutrition, health and wellness • Responsible labelling and marketing • Innovation • Transparency and integrity • Environmental impact • Affordability • Consumer feedback and queries 	
	<ul style="list-style-type: none"> • Annual and Sustainability Reports • Annual General Meeting • Analyst briefings • Announcements to Bursa Malaysia • One-on-one and group investor meetings and calls • Disclosures on corporate website 	<ul style="list-style-type: none"> • Business performance • Integrity and governance • Business strategy • Regulatory compliance • Reporting • Risk management • Environment, social and governance updates 	
	<ul style="list-style-type: none"> • Community development programmes • Creating Shared Values ("CSV") Projects • Monthly food contribution programme • Corporate Social Responsibility initiatives • Farmer connect programmes • Food bank programme • Initiatives supporting lower-income, hardcore poor and vulnerable communities 	<ul style="list-style-type: none"> • Employee volunteerism • Community engagement • Rural development and empowerment • Sustainable agriculture • Environmental impact • Food security • Nutrition, health and wellness • Supporting B40 group and other vulnerable communities 	
	<ul style="list-style-type: none"> • Stakeholder engagement dialogues and materiality assessments • Roundtable discussions • Strategic partnerships and agreements • Memberships • Monthly food contribution programme • Key Opinion Leaders ("KOL") survey • Corporate Social Responsibility support 	<ul style="list-style-type: none"> • Nutrition, health and wellness • Responsible labelling and marketing • Sustainable agriculture • Labour conditions and standards • Environmental and climate change impact • Community engagement 	

Corporate Governance Overview Statement

		Engagement Methods	Priority Issues
STAKEHOLDER GROUPS	Government	<ul style="list-style-type: none"> • Advocacy meetings • Roundtable issue discussions • Ministerial engagements and dialogues • Regulatory filings • Exhibitions and showcases • KOL survey • Materiality assessments • Industry and regulatory working groups 	<ul style="list-style-type: none"> • Food safety and quality • Responsible labelling and marketing • Regulatory compliance • Nutrition, health and wellness • Environmental impact • Job creation • Economic development • Regulatory Reporting
	Media	<ul style="list-style-type: none"> • Face-to-face engagements • Dialogues and forums • Media familiarisation trip to CSV project sites • Corporate and brand events • KOL survey 	<ul style="list-style-type: none"> • Food safety and quality • Nutrition, health and wellness • Responsible labelling and marketing • Transparency and integrity • Environmental and climate change impacts • Rural and community development • Business performance
	Industry and Trade Associations	<ul style="list-style-type: none"> • Key associations • Advisory panelists • KOL survey • Exhibitions and showcases 	<ul style="list-style-type: none"> • Responsible labelling and marketing • Sustainable agriculture • Labour conditions and standards • Environmental and climate change impact • Economic development • Regulatory compliance • Job creation
	Suppliers	<ul style="list-style-type: none"> • Supplier Engagement Day • Training on Responsible Sourcing Standard and Anti-Corruption • Small and Medium Enterprise Mentoring Programme 	<ul style="list-style-type: none"> • Occupational health and safety • Human rights • Responsible sourcing • Sustainable agriculture • Regulatory compliance • Rural development and empowerment
	Customers/ Retailers	<ul style="list-style-type: none"> • Product campaigns • Consumer engagement activities • Customer relationship management 	<ul style="list-style-type: none"> • Innovation • Responsible labelling and marketing • Nutrition, health and wellness • Food safety and quality • Customer satisfaction
	Academia	<ul style="list-style-type: none"> • Partnership programmes • Talks and forums • Employer branding activities (e.g. career fair) • KOL survey 	<ul style="list-style-type: none"> • Nutrition, health and wellness • Food safety and quality • Responsible labelling and marketing • Environmental and climate change impact

ADDITIONAL DISCLOSURE

RELATED PARTY TRANSACTIONS

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

The Group has established procedures regarding its related party transactions which are summarised as follows:

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

The recurrent related party transactions pursuant to Shareholders' mandate entered into by the Company with its related parties from 30 April 2020 (the date of the last AGM) to 1 March 2021, are as follows:

- purchase of raw materials, semi-finished, finished food products such as milk, cocoa, coffee, cereal, etc. and other services from Nestlé affiliated companies which amounted to approximately RM858 million;
- payment of royalties for the use of trade marks for the sale of food products such as milk, cocoa, coffee, cereal, etc. to Nestlé affiliated companies amounting to approximately RM226 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM43 million;

- sale of food products to Nestlé affiliated companies amounting to approximately RM818 million;
- payment for information technology, agency services and other shared services from Nestlé affiliated companies of approximately RM33 million; and
- payment of interests for Intra Group Loan of approximately RM1 million to Nestlé affiliated companies.

MATERIAL CONTRACTS

There were no material contracts entered into by the Group involving the interests of Directors and its major Shareholder, either still subsisting at the end of the financial year ended 31 December 2020, or entered into since the end of the previous financial year.

COMPLIANCE STATEMENT BY THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement. Pursuant to Paragraph 15.25 of the Listing Requirements, the Board is pleased to report that the Board is satisfied that to the best of its knowledge the Company has fulfilled its obligations in accordance with the applicable laws and regulations, throughout the financial year ended 31 December 2020. Save as disclosed in our Corporate Governance Report, which is available on our Company's website www.nestle.com, we have complied with the main principles of the MCGG.

This Corporate Governance Overview Statement was presented and approved at the meeting of the Board on 18 March 2021.

On behalf of the Board



Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
Chairman

Corporate Governance Overview Statement

AUDIT COMMITTEE REPORT

AC



Chairman

Dato' Mohd. Rafik Shah Mohamad ("Dato' Mohd. Rafik")

Independent Non-Executive Director

- Chartered Accountant, Malaysian Institute of Accountants ("MIA")
- Fellow of the Association of Chartered Certified Accountants ("ACCA")

100%

COMMITTEE MEMBER
ATTENDANCE

COMPOSITION

The Audit Committee ("Committee") during the year comprised exclusively of Non-Executive Directors, two of whom are Independent Directors.

All members of the Committee are financially literate and have significant experience working with public listed companies on financial matters and internal controls, as well as a broad and diverse spread of commercial experience. Such consideration provides the Board with assurance that the Committee has the appropriate skills, breadth and depth to ensure that it can be fully effective. The experience of each member of the Committee is summarised on pages 48 to 59 of the Annual Review Report. The Committee is chaired by Dato' Mohd. Rafik who is an Independent Director, a member of MIA and was appointed by the Board from its members. He is not the Chairman of the Board.

The main objective of the Committee is to assist the Board in ensuring effective governance over the appropriateness of the Group's financial reporting, including the adequacy of related disclosures, the performance of both the internal audit function and the external auditors, and the

oversight over the Group's systems of internal and external controls, business risks and related compliance activities.

The Committee meets at least four times a year as a minimum and at other times as required. A quorum, established by the presence of the Chairman, and at least one other member who must be an Independent Director, has always been met for the meetings of the Committee.

The Company Secretary of the Company acts as the Secretary of the Committee, who is in attendance at all the meetings and records the proceedings of the meetings. Although not members of the Committee, the CFO, the Head of Nestlé Internal Audit ("NIA"), the Head of Accounting & Consolidation and the external auditors, are invited to the meetings. As and when necessary, the Committee may also extend meeting invites to relevant members of the Management Team for matters that require their input and clarification. The Committee has access to any form of independent professional advice, and has the services of the Company Secretary, if and when required, in carrying out its functions.

MEMBERS



Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail

Non-Independent Non-Executive Director

- Chartered Accountant
- Member, Malaysian Institute of Accountants ("MIA")
- Member, Certified Practising Accountant ("CPA") (Australia)



Datin Sri Azlin Arshad

Independent Non-Executive Director

(appointed on 1 May 2020)

- Honours Degree in Accounting and Finance, University of Glamorgan (now known as University of South Wales)

The following member retired on 30 April 2020:

- Tan Sri Datuk (Dr.) Rafiah Salim

AUDIT COMMITTEE REPORT

ROLE AND RESPONSIBILITY

The principal responsibilities of the Committee is to assist the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position. Further, the Committee monitors the integrity of the financial statements, the results announcements of the Group and reviews the financial reporting. The Committee reviews the adequacy of disclosures, the effectiveness of the Group's internal controls and ensures that a robust risk management system is in place. It recommends external auditor appointments, assesses the quality and effectiveness of internal and external audits, assesses independence of the external auditors and monitors non-audit services. Additionally, the Committee reviews the Group's whistleblowing system and ensure the adequacy of fraud prevention measures.

The Terms of Reference of the Committee, which includes its key objectives and responsibilities is available on the Company's website at www.nestle.com.my.

THE COMMITTEE AND ITS WORK:

The Committee discharges its responsibilities through a series of scheduled meetings during the year, the agenda of each being linked to events in the financial calendar of the Group and also any other areas of importance to the Committee. The Committee supports and reports to the Board following each Committee meeting.

The Committee met four times during the financial year with all members in attendance at all meetings. During the year, the CFO, representatives of the external auditors, the Head of NIA and the Head of Accounting & Consolidation, attended all meetings in order to ensure that the Committee remained fully informed of events and developments within the business, thus reinforcing a strong internal control and risk management culture.

No member of the Committee has a connection with the current external auditors. The Head of NIA and the external auditors have direct access to the Chairman of the Committee who held a number of meetings with each of them during the financial year outside the formal Committee meetings. The Chairman of the Committee also liaises with the CFO as well as the Company Secretary as necessary to ensure robust oversight and challenge in relation to financial control and risk management.

During the financial year under review, the annual performance of the Committee was evaluated and the overall performance of the Committee and its individual members was very highly rated. The Committee has benefited from the commitment and engagement of its members together with the encouragement by its Chairman for open and honest input. The Committee facilitated the smooth transition of the external auditors, from KPMG PLT to Ernst & Young PLT ("EY PLT") and together with the support of the Governance, Nomination and Compensation Committee it ensured that the new Committee member, Datin Sri Azlin was well versed with the role and responsibilities of the Committee and has acquired a good overview and understanding of the Group's businesses and operations.

There is an annual cycle of items considered by the Committee covering the requirements of the external audit cycle and any other relevant matters, as detailed in the Terms of Reference of the Committee. The agenda cycle is reviewed annually to ensure that the Committee remains proactive and relevant. The Terms of Reference provides a framework for the Committee's work to review and oversee the quality, integrity, appropriateness and effectiveness of the Group.

Every quarter the Committee reviews and deliberates on the Group's Enterprise Risk Management which identifies and monitors the development of potential major risks to the Group, the implementation of the mitigating measures and the monitoring of mitigation efforts to minimise the risks.

All Committee meeting minutes, including meeting papers, on matters deliberated by the Committee in the discharge of its functions are properly documented. The Committee reports to the Board every quarter on matters falling within the Committee's Terms of Reference, including the recommendations of the Committee for the Board's consideration and approval.

The Committee continuously reviews and updates its Terms of Reference with the last review carried out on 22 February 2021 and approved by the Board on 23 February 2021.

Corporate Governance Overview Statement

AUDIT COMMITTEE REPORT

MEETINGS

The Committee met four times during the financial year. The following summarises the key activities of the Committee in 2020:

Area of focus	Matters considered/reviewed/deliberated/approved:-
Financial reporting	<ul style="list-style-type: none"> Cumulative full year results for the financial year ended 31 December 2019 and cumulative first half year results for the financial year ended 31 December 2020. Directors' Report and Audited Financial Accounts for the financial year ended 31 December 2019. Quarterly Results. Proposal of dividend payments and solvency of the Company before recommending for the Board's approval. Financial results announcements before recommending for the Board's approval. Recurrent Related Party Transactions ("RRPT") of the Group. Methods and procedures in determining the terms of RRPT.
Risk and internal control	<ul style="list-style-type: none"> Enterprise Risk Management, potential major risks of the Group, the mitigating measures and updates. Cyber security risks of the Group. Regulatory landscape risks impacting the business. Corruption risks. Report on major litigation, claims and/or issues with substantial financial impact (if any). Distributors' credit risks and management. Nestlé Internal Audit's report, recommendations and the responses from the Management Team. Updates on the development of the Internal Audit Practices. Nestlé Internal Audit's resource requirements, scope, adequacy and function. Overall performance of the Head of NIA (in her absence) the NIA team and the individual members of the NIA team. Movements of the NIA team members. Circular from Bursa Securities on Key Observations on the Effectiveness of Internal Audit ("IA") Functions of Listed Issuers. Audit Plan for 2021. Report from the Business Ethics and Fraud Committee, including the current status of complaints received through the whistleblowing hotline.
External audit	<ul style="list-style-type: none"> External auditors' report and the responses from the Management Team. Smooth change and transition of external auditors from KPMG PLT to EY PLT. Discussions with the external auditors on issues/matters arising from the audit (in the absence of the Management Team), on 24 February 2020 and 24 August 2020. Audit Plan for the financial year ending 31 December 2020 by the external auditors, EY PLT. Guideline on provision of non-audit services by the external auditors.
Compliance, governance and other matters	<ul style="list-style-type: none"> Company's compliance with the Listing Requirements, Malaysia Accounting Standards Board ("MASB") and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements. Draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for RRPT of a revenue or trading nature. Recommendation for the appointment of EY PLT as the Group's external auditors for the financial year ending 31 December 2020, to ensure the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements, and for the Directors to fix their remuneration. Statement on Risk Management and Internal Control to be disclosed in the Annual Report. Evaluation of Audit Committee Assessment. Transition plans of the new Audit Committee Chairman. Terms of Reference of the Audit Committee. Audit Committee Report to be disclosed in the Annual Report 2019. Tax updates. Effectiveness of the Audit Committee meetings. Audit Committee Agenda for 2021.

Priorities for 2021

In addition to the ongoing reviews on matters under the purview of the Committee, the Committee will focus on:

- Supporting the smooth transition of the new Audit Committee Chairman.
- Reviewing of Enterprise Risk Management and robustness of the Business Continuity Plan, in view of the challenges brought by the COVID-19 pandemic.

AUDIT COMMITTEE REPORT

NESTLÉ INTERNAL AUDIT DEPARTMENT

NIA is administered as a department within the Finance & Control function in the Group but it reports functionally to the Committee and the Nestlé Internal Audit (Center) of Nestlé S.A. in Switzerland, thus ensuring its independence.

The main role of NIA is to undertake independent and systematic reviews of the processes and guidelines of the Group and to report on their application and compliance, the details of which can be found on page 36 of this report. The outcome of the reviews are objectively reported to the Management Team and to the Committee, prior to it being presented to the Board.

The review performed by NIA is based on the International Standards for the Professional Practice of Internal Auditing Framework and is in line with the Internal Audit Charter, which is regularly reviewed by the Committee.

The NIA undergoes once every five years, a formal recertification, with the recent review in 2020. The objectives of the recertification exercise are to:

- assess NIA's compliance to the International Standards for Internal Audit as established by the Institute of Internal Auditors;
- identify areas where NIA can maximise performance and adding more value to the Nestlé organisation; and
- provide NIA with an external benchmark against similar industry.

The recent recertification was conducted by an external certifier, in line with the Global Nestlé Internal Audit certification requirement. It was concluded that:

- NIA generally conforms with the International Standards for Internal Audit; and
- NIA provides best in class Internal Audit framework when benchmarked against its industry peers.

In addition to the external recertification process, the Head of NIA carries out interim self-assessment reviews once every three years (based on the certification questionnaires). The results of the recertification and assessment are presented to the Committee.

The NIA is led by Miss Masita Mohamad Jalil, age 46 years old. She has served the Group for 18 years, nine years in internal audit function, locally and internationally, and nine years in Business Controlling function.

She is a member of CPA (Australia), Malaysian Institute of Accountants (MIA) and a professional member of the Institute of International Auditors Malaysia. She holds an Accounting and Finance Degree from Deakin University, Australia.

Her team consists of six qualified auditors with various professional qualifications, namely Certified Fraud Examiner (US), Chartered Institute of Management Accountant (UK), Association of Chartered Certified Accountant (UK), associate members of the Institute of International Auditors Malaysia and Master of Business Administration.

All internal auditors are free from any relationships or conflicts of interest, which could impair their objectivity and independence. The costs incurred for the NIA's function for the financial year ended 31 December 2020 was RM1 million.

The workings of Nestlé Internal Audit

NIA is required to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (i.e. be independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Provide risk-based assurance;
- Be insightful, proactive and future-focused; and
- Promote organisational improvement.

Corporate Governance Overview Statement

AUDIT COMMITTEE REPORT

RELATIONSHIP WITH EXTERNAL AUDITORS

The Committee is provided with reports, reviews, information and advice throughout the year, as set out in the terms of the external auditors' engagement. The performance of the external auditor is formally assessed by the Committee on a scheduled basis. The Committee is satisfied that the external auditor is effective and has provided appropriate independent challenge to the Company's management.

EY PLT has provided a letter confirming that it is and has been, independent throughout the conduct of the audit engagement for the financial year ended 31 December 2020, in accordance with the terms of all relevant professional and regulatory requirements. The external auditor is also not aware of any relationships or other matters that may reasonably be thought to bear on their independence. In this regard, the Committee and the Board are satisfied with the independence of the external auditors. Further, in ensuring the independence of the external auditors, the Committee does impose that in line with the Audit Partner Rotation requirements issued by the MIA, the external auditors rotate the key audit partner every seven years.

The fees paid/payable to the external auditors, EY PLT and its affiliates, and to KPMG PLT and its affiliates, in the financial years ended 2020 and 2019, respectively were as follows:

	2020	2019
	EY (RM)	KPMG (RM)
Audit and Remuneration	620,000	488,000
Tax compliance review	-	27,000
Non-audit services	268,200⁽¹⁾	88,000 ⁽²⁾
Total	888,200	603,000

⁽¹⁾ For the review of Statement on Risk Management and Internal Control, and employee tax matters.

⁽²⁾ For the review of Statement on Risk Management and Internal Control, and the BEE 2019.

The Committee believes that it is important to maintain the objectivity and independence of the external auditors by minimising their involvement in projects of a non-audit nature. It is however also acknowledged that it may sometimes be necessary to involve the external auditors in non-audit related work. There is a clear guideline in place, which is reviewed by the Committee, for the type of non-audit services that the external auditors could provide to the Group with defined parameters and approval requirements. The external auditors may not be engaged to provide a non-audit service when the objectives of the service would be regarded by a reasonable and informed third party, as conflicting with the objectives of the external audit.

The Committee has an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the external auditors and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditors and both the Committee and the Management Team, including discussion of regular papers prepared by the Management Team and EY PLT;
- regular discussions between the Committee and the external auditors (in the absence of the Management Team), and between the Committee and the Management Team (in the absence of EY PLT) in order to discuss the external audit process; and
- a review of the final audit report, noting key areas of auditors' judgment and the reasoning behind the conclusions reached.

The external auditors reviewed the work of the internal auditors to obtain an understanding of the Group's internal control and areas relating to the Group's financial reporting.

GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE REPORT

GNCC



Chairman

Y.A.M. Tan Sri Dato' Seri
Syed Anwar Jamalullail

100%

COMMITTEE MEMBER
ATTENDANCE

The Governance, Nomination and Compensation Committee ("Committee") was established on 10 November 2020, in place of the Nomination and Compensation Committee. This was to reflect the role of the Committee in overseeing the corporate governance and compliance of the Group, in addition to its existing roles under the purview of the Nomination and Compensation Committee.

COMPOSITION

The Committee during the financial year comprised exclusively of Non-Executive Directors. Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail has been elected as Chairman of the Committee due to his vast experience, knowledge, exemplary leadership and dedication. This is important in ensuring an effective Committee, with the right composition and expertise, and setting the direction and objective of the Committee. Even though the Committee is chaired by a Non-Independent Director, all other members of the Committee are Independent Directors.

The main objective of the Committee is to promote good corporate governance within the Board and the Group; to reinforce professional, ethical behaviour and a compliance culture; to assist the Board in ensuring that the Board comprises of individuals with the necessary skills, knowledge and experience for the effective discharge of its responsibilities; and in matters relating to the compensation of the Board, the Management Team and employees of the Group.

The Committee meets at least twice a year as a minimum and at other times as required. A quorum established by the presence of the Chairman and at least one member who must be an Independent Director, has always been met for meetings of the Committee.

The Company Secretary of the Company acts as the Secretary of the Committee, who is in attendance at all the meetings and records the proceedings of the meetings. Although not a Committee member, the CEO is invited and has attended the meetings. As and when necessary, the Committee may also extend meeting invites to relevant members of the Management Team, for matters that require their input and clarification. The Executive Director, Group Human Resource is invited to participate in the meetings when the agenda is on management development and succession planning of the Nestlé Leadership Team, compensation of the Nestlé Leadership Team and employees of the Group, and any other human resource related matters. The Committee has access to any form of independent professional advice, and has the services of the Company Secretary, if and when required, in carrying out its functions.

MEMBERS



**Dato' Mohd. Rafik
Shah Mohamad**



Dato' Dr. Nirmala Menon
(appointed on 5 May 2020)



Dato' Hamidah Naziadin
(appointed on 5 May 2020)

The following members
retired on 30 April 2020:-
- Tan Sri Datuk (Dr.)
Rafiah Salim
- Dato' Frits van Dijk

Corporate Governance Overview Statement

GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE REPORT

ROLE AND RESPONSIBILITY

The principal responsibilities of the Committee with regard to the governance function are amongst others, to oversee matters relating to good corporate governance practices and compliance, including to reinforce the Group's stand against bribery and corruption. As part of its nomination function, it is responsible for, amongst others, reviewing the composition, skills and competencies of the Board, assessing the independence of Non-Executive Directors, evaluating the performance and effectiveness of the Board, Board Committees, and individual Directors, and identifying suitable candidates for appointment to the Board. It also recommends to the Board the re-election/retention of Directors and reviews the succession planning for the Directors and the Nestlé Leadership Team. Under its compensation function, the Committee is empowered by the Board to assess and formulate broad compensation strategy for the employees of the Group and review the compensation package for the Executive Directors, the Nestlé Leadership Team and the Non-Executive Directors.

The Terms of Reference of the Committee, which includes its key objectives and responsibilities is available on the Company's website at www.nestle.com.my.

THE COMMITTEE AND ITS WORK:

The Committee discharges its responsibilities through its scheduled meetings during the year in accordance with its fixed agenda which covers the matters under the purview of the Committee. The Committee met twice during the financial year.

In matters relating to corporate governance and compliance, the Committee takes the lead to assist the Board to ensure that good corporate governance practices are adopted and a compliance culture is inculcated within the Group. As part of its responsibilities, the Committee reviews the Company's application of the practices under the MCCG.

The Committee reviews the Diversity Policy that recognises the effectiveness of a diverse workforce, as a balance of skills, experience, age, ethnicity/cultural background, gender and differing perspectives are essential in understanding all aspects of the business and its strategic intent. One of the focus areas for 2020 was to identify potential female candidates who could add value, bring a

distinctive set of skills and different perspectives to the Board. With the appointment of two new female Directors in May 2020, it has enhanced the diversity of the Board.

Succession planning is also an important role for the Committee. It reviews the retirement schedule of its Directors and as part of the Board's succession planning efforts, there were extensive focus and initiatives by the Committee in identifying potential candidates to build the talent and succession pipeline, while taking into account the required skill mix, the diversity and potential needs of the Board. The Committee also deliberated on the management development and succession planning for the Nestlé Leadership Team. This is to ensure that the Group is led by capable people from diverse backgrounds. The Committee continuously develops its talent pool to sustain a strong talent pipeline for the success of the Group.

During the financial year, the Committee reviewed the Charter mandate and progress of the Food Industry Employees Union ("FIEU") Collective Agreement under negotiation.

All Committee meeting minutes, including meeting papers, on matters deliberated by the Committee in the discharge of its functions are properly documented. Recommendations by the Committee are reported by the Chairman of the Committee for the Board's consideration and approval. No Director is involved in any deliberations or decisions with regards to matters that they have an interest in.

The Committee continuously reviews and updates its Terms of Reference with the last review carried out on 15 February 2021 and approved by the Board on 23 February 2021.

GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE REPORT

MEETINGS

The Committee met twice during the financial year. The following summaries the key activities of the Committee in 2020:

Area of focus	Matters considered/reviewed/deliberated/approved:-
Governance	<ul style="list-style-type: none"> • Corporate governance and compliance matters. • Changes to the Board Charter. • Application of the practices under the MCCG. • Gaps under the MCCG, and the action plans to remedy the gaps, if any.
Nomination	<ul style="list-style-type: none"> • Contribution, performance and the effectiveness of the Board as a whole, the Board Committees and individual Directors. • Size structure, balance and composition of the Board and the Board Committees, the Board's diversity and the required mix of skills and core competencies. • Policy on Board composition and the diversity (including gender, ethnicity and age diversity). • Board Effectiveness Evaluations ("BEE") and Assessment of Director's Independence. • Board Improvement Programme based on the outcome of the BEE. • Declaration of directorship and time commitment of each Director. • Board retirement schedule and succession plans for the Non-Executive Directors. • Re-election and retention of Directors at the Annual General Meeting and making the necessary recommendations to the Board. • Search for potential Board and Audit Committee Chairman candidates, review and assess the proposed candidates and make the necessary recommendations to the Board. • Appointment of the two (2) new Directors to the Board and overseeing their Induction Programme. • Management development and succession plans for the Nestlé Leadership Team. • Trainings attended by each Director, implementation of Induction Programme for new Directors, assess the training needs of the Directors and approve the Board Training Programme.
Compensation	<ul style="list-style-type: none"> • Employee Remuneration Direction Package for 2020. • Proposed Employee Remuneration Direction Package 2021. • Executive Directors Compensation Package. • Nestlé Leadership Team Compensation Package. • Compensation of Board of Directors. • Compensation Policy. • Charter mandate and progress of the Food Industry Employees Union ("FIEU") Collective Agreement negotiations.
Governance, Nomination & Compensation	<ul style="list-style-type: none"> • Committee Agenda for 2021. • Effectiveness of the Committee meetings. • Terms of Reference of the Committee. • Nomination and Compensation Committee Report for disclosure in the Annual Report 2019.
Priorities for 2021	
<p>In addition to the ongoing review of matters under the purview of the Committee, the Committee will focus on:</p> <ul style="list-style-type: none"> • Supporting the smooth transition of the Audit Committee Chairman. • Identifying potential candidates to the Board. 	

Statement on Risk Management and Internal Control



The Group's system of risk management and internal control, including the periodical review of its adequacy, effectiveness and integrity is under the responsibility of the Board and Management. The system of internal control emphasises on matters of governance, risk management, organisational, operational, financial strategy, regulatory and compliance control.

This system is established by the Board and Management to manage, as opposed to eliminating the risks of non-compliance with the Group's policies and to fulfill the objectives and strategic priorities of the Group within the established risk tolerance thresholds that are in place. The system ensures the risk of the occurrence of any material misstatement, loss or fraud is substantially mitigated.

HOW WE APPROACH RISK

With the increasing and unexpected dynamic, complex and sophisticated business environment, it is critical that we understand the link between risk, internal controls, strategy and value. At Nestlé, this link is formalised through an alignment of our strategy, risk management and internal processes, which supports fulfilment of our strategic priorities, thereby delivering value for all Stakeholders. The Nestlé risk and opportunities strategy was part of the assessment requirement for ISO 9001:2015 certification.

BOARD OF DIRECTOR'S RESPONSIBILITIES

The Board and the Management Team are responsible and accountable for the establishment of the Group's system of risk management and internal control. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board, to oversee the following operations and processes:

- (i) periodic reviews of the principal business risks, and control measures to mitigate or reduce such risks;
- (ii) periodic reviews of the strengths and weaknesses of the overall internal controls system and action plans to address the risk of weaknesses or to improve the assessment process;
- (iii) periodic reviews of the business internal process and operations reported by the Internal Audit Department, including action plans to address the identified control weaknesses and status update and monitor in implementing its recommendations; and
- (iv) reports by the external auditors of any control issues identified in the course of their audit related and non-audit related work and the discussion with the external auditors of the scope of their respective review and findings.

The Audit Committee will then update the Board with the issues raised in the quarterly Audit Committee meetings. The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

CGFR

Please also see "Audit Committee Report" on pages 26 to 30 regarding the Committee's detailed review work, including the forms of "assurance" received from management, external auditors, and internal auditor.

Our Board's responsibilities include:

1 the governance of risk	5 ensuring that frameworks and methodologies are implemented to reduce the probability of unpredictable risk
2 determination of the levels of risk tolerance	6 ensuring regular risk monitoring by management
3 delegation the responsibility to management to design, implement and monitor the risk management	7 receiving assurance regarding the effectiveness of the risk management process; and
4 ensuring that risk assessments are performed regularly	8 ensuring there are processes in place enabling complete, relevant, accurate, timely and accessible risk disclosure to stakeholders

OUR RISK MANAGEMENT FRAMEWORK

The Board and the Management Team fully support the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

In support of the Nestlé Malaysia Internal Audit Department and prevailing practices of related companies, the Board and Management Team have put in place risk management guidelines, control measures and processes throughout the Group which are consistent with global risk management framework.

The Group system of risk management and internal control are designed to manage and mitigate the risks which may hinder the achievement of the Group's strategy.

Statement on Risk Management and Internal Control

With this framework, the responsibility for day to day risk management resides with the Management of each function/business unit where they are the risk owners and are accountable for managing the risks identified and assessed. In managing the risks of group, the Risk Management Department collaborates with the Management in reviewing and ensuring that there is on-going monitoring of risks, the adequacy and effectiveness of its related controls, and action plans are developed and implemented to manage these risks at the acceptable level by the Management.

Enterprise Risk Management (“ERM”) Process is a process on how the Group facilitates and approaches the risk identification, assessment, reporting, review mitigation control and as well as measuring the action plan. These assessment reviews are to curb the identified or unidentified external or internal risk. In addition, the Group monitors the Key Risk Indicator (“KRI”) each quarter and work with the relevant stakeholders of the function on action plan accordingly.

Risk management is firmly embedded in the Group’s key processes through its Risk Management Framework, in line with Principle B and Practice 9.1 and 9.2 of the Malaysian Code on Corporate Governance that was issued in 2017 (“MCCG 2017”). Risk management practices are inculcated and entrenched in the activities of the Group, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Group.

Risk Management principles, policies, procedures and practices are periodically reviewed, with the results thereof communicated to the Board through the Audit Committee and changes and/or improvements made thereto where required and necessary to ensure their continuing relevance and compliance with current/applicable laws, rules and regulations.

NESTLÉ MALAYSIA INTERNAL AUDIT DEPARTMENT

The Nestlé Malaysia Internal Audit Department, also known as “Nestlé Internal Audit (NIA)”, is guided by its Audit Charter with the Head of Internal Audit reporting functionally to the Audit Committee and administratively to the CFO and a Regional Audit Manager for Continental East and South Asian (“CESA”) region. NIA is an independent, objective assurance and consulting function guided by a philosophy to improve and add value to governance, risk management and control procedure of the Group. NIA mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. NIA’s responsibilities are defined by the Audit Committee as part of their oversight function. The function is independent to any operational activities in the Group providing the Audit Committee. An independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of NIA includes:

- assessing and reporting on the effectiveness of the governance, risk management and internal control systems including the reviewing the related party transactions;
- assessing the adequacy and effectiveness of management process and controls to ensure accomplishment of established goals and business objective;
- assessing and reporting on the reliability and integrity of financial and operational information;
- assessing and reporting on the operational efficiency and identifying saving potentials, where practical; and
- reviewing compliance with the Group policies, principles and guidelines, and applicable laws and regulations.

The NIA function is being carried out in accordance to the International Standards of Auditing.

THE NESTLÉ INTERNAL AUDIT IDENTIFIES ITS SCOPE OF AUDIT BASED ON RISK ASSESSMENTS PERFORMED ON:

A

the inherent risk of the business units/
departments; and

B

the complexity of the end to end processes within each
business unit/department.

Each year, the annual audit plan is presented and reviewed by the Audit Committee and approved by the Board in the final quarter of the preceding year.

On a quarterly basis, the Head of Internal Audit updates the audit activities (including the performance of the auditors) and reports the results of internal audit reviews to the Audit Committee. The reporting to Audit Committee is a permanent agenda in the meeting of the Board.

A matrix which summaries the audit issues, root causes, specific actions, owners of issues, its priorities and status have been developed as a template and is accessible via web-based application for easy access and as audit repository. The system is equipped with progressive automated reminders to the owners of the issues before actions become due after the audit review is performed. Observations and proposed action plans arising from the internal audit reviews are presented, together with Management Team’s response to the Audit Committee. The management actions are reviewed and followed up periodically by the NIA and reported to the Audit Committee.

Despite the COVID-19 pandemic, for the financial year ended 31 December 2020, NIA completed four (4) assurance and advisory reviews of which three (3) were performed remotely. The areas audited involving two (2) process reviews, an advisory review on the Group's compliance to its' anti-corruption policy and guidelines and a balance sheet integrity review (which include related party transactions).

Additionally, the Nestlé S.A. Audit Department, also known as the "Nestlé Internal Audit (Center)", the internal auditing arm of the holding company, Nestlé S.A., is also responsible for assessing the effectiveness of internal control for the Global Nestlé Group. The Nestlé Internal Audit (Center) conducts reviews of processes, systems and business excellence on selected areas based on a Group wide Risk Assessment Methodology. The annual NIA audit plan and audit results (where applicable) are reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. via the Head of Nestlé Internal Audit (Center).

HOW WE TREAT RISK

The Group monitors and minimises key risks in a structured and proactive manner. With the unexpected pandemic situation, capacity has been adjusted in response to, demand, working capital has undergone structural improvements, the focus on price and mix has intensified and the purchasing process for raw materials has been further streamlined. Some of the key risks and mitigation are described as below:

RISK	MITIGATE ACTIONS
Business Disruption Resulted from Pandemic or Global Crisis	
The Group is exposed to unexpected business disruptions along the entire supply chain.	<p>The Group has a Crisis team to handle and activate the Business Continuity Plan when necessary. During the Movement Control Order arising from COVID-19 pandemic, this has been tested and validated.</p> <p>We collaborate and keep in close contact with our business partners to ensure safety and ensure minimal disruption in business supply.</p> <p>We strictly adhere to the Standard Operating Procedures and work closely with the authorities to ensure the safety of everyone in the Group and continuity of operations.</p>
Commodity and Material Prices	
Major fluctuations in prices of Commodities and Materials will have significant impact to cost of our products.	<p>The Group has dedicated teams, both globally and locally to manage the sourcing of the commodities and materials. This also enables us to hedge our purchases leveraging on our Global capabilities.</p> <p>To ensure minimal interruption of the supply, we also source from multiple suppliers which are approved based on our global and local standards.</p>
Foreign Currency Exchange	
The Group is exposed to unpredictable fluctuations in foreign exchange rates against the local currency.	The Group has a Treasury Center which is a dedicated team to minimise the risk.
Food Safety and Quality	
Quality and Food Safety Assurance is an utmost important principle for us as this risk may cause serious impact to the Group.	<p>All manufacturing sites maintain Food Safety System Certification (FSSC 22000) to uphold the food safety of our products.</p> <p>In order to achieve flexibility in sourcing while ensuring high quality raw materials, Nestlé is committed to have all its suppliers certified against one of the Global Food Safety Initiative ("GFSI") recognised certification programmes.</p>

Statement on Risk Management and Internal Control

RISK	MITIGATE ACTIONS
Health-Related Concerns	
<p>With consumers growing increasingly aware and concerned about their health and way of life, this has impacted the rise of health activists who are critical of the perceived inadequacy of the nutritional values of our products.</p> <p>This may lead to potential negative consumer perception on our products in relation to their health.</p>	<p>With our Group's industry-leading research and development, we continuously strive to innovate and improve product development to produce high-quality and nutritious offerings.</p> <p>We have time-bound plans to continuously improve our nutritional profiling with significant progress on a year-to-year basis.</p> <p>Aiming to be part of the solution, we inspire individuals and families to live well through various educational programmes and awareness campaigns as well as provide nutritional advice and guidance on portion control.</p> <p>Further details on our efforts can be found in the Nestlé in Society report.</p>
Environmental Concerns	
<p>Increasing concerns on the Group's environmental footprint, including impact on climate change, plastic pollution, water usage, etc.</p>	<p>Our goal is to be a responsible steward of natural resources.</p> <p>Nestlé Malaysia is guided by the Global Group Commitments, such as becoming carbon neutral by 2050 and having 100% of packaging recyclable by 2025, fostering sustainability along the supply chain as part of the transition towards a greener future. We promote also behavior change and partners with local authorities as part of environmental sustainability efforts.</p> <p>We are constantly working towards improving our water management (water efficiency and reuse), regulatory compliance, protecting natural capital and reducing the impact of our products by focusing on waste management and packaging.</p> <p>We also support the rural communities we engage with to embrace regenerative agricultural practices.</p>
Cybersecurity Attacks	
<p>The threat landscape has evolved significantly over the past years in line with the rapid evolution of technology.</p>	<p>The scope of security monitoring by the Cyber Security Operations Center and technologies used is also evolving.</p> <p>The Group is ISO 27001 certified. Security controls have been implemented to identify cybersecurity risks based on Nestlé Cyber Risk Framework.</p> <p>We strive to build a strong security culture through awareness programmes including IT Security training and communication.</p>
Fraud and Corruption	
<p>The Group could face some risk of fraud and corruption derived from insufficient compliance awareness, which may result in legal, financial and reputational repercussion.</p>	<p>The Group continues to create awareness through various compliance training programmes, risk assessment on anti-corruption and compliance-related issues.</p> <p>In addition, the Group has a whistleblowing hotline in place for employees and third parties to lodge non-compliance complaints.</p>

The impact of the major risks had been evaluated and mitigation efforts are being taken to manage the identified risks.

OTHER RISKS AND INTERNAL CONTROL PROCESSES

The overall governance structure and formally defined policy and procedures (via Company Standing Instructions) play a major part in establishing the control and the risk environment in the Group. Although the Group is a networked organisation, a documented and auditable trail of accountability have been established through relevant charters/terms of reference and appropriate authority limits. In addition, authority limits and major Group Policies (health and safety, training and development, equality of opportunity, staff performance, sexual harassment, and serious misconduct) and the Nestlé Corporate Business Principles (available on www.nestle.com.my) have been disseminated and communicated to the Group's employees.

These processes and procedures have been established and embedded across the whole organisation and provides assurance to all levels of management, including the Board. The Nestlé Internal Audit serves to assess the implementation and the effectiveness of these procedures and reporting structures, as well as to verify the system of risk management and internal controls.

The Chief Executive Officer ("CEO") also reports to the Board on significant changes in the business and the external environment which materially affects the operations. Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board.

The Risk & Control ("R&C") matrices is a platform that permits simplification and limits overlap and duplication of control initiatives, whilst enabling a more meaningful Internal Control assessment. It provides clarity in gauging controls, particularly to understand where the control responsibility lies, with the required level of detail. The R&C matrices also allow Management to better encompass new solutions that are introduced into business processes. The result is an aligned view and single control repository for Markets, Nestlé Business Services ("NBS"), Audit and the Centre.

A Business Ethics and Fraud Committee set up by the management and chaired by the CEO meets periodically to review all complaints/allegations lodged via the "Speak Up" or any other avenues (e.g. phone, letter, e-mail) which are in line with the Whistleblowing policy of the Group as described on pages 5 and 6 of this Corporate Governance & Financial Statement 2020. This committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. All fraud cases, if any, are also reported to Nestlé S.A. by the Nestlé Internal Audit.

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

The Board has received assurances from the CEO and CFO that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, during the financial year under review and up to the date of approval of this Statement. Our internal control systems have been proven robust and effective during COVID-19 pandemic. Taking into consideration the assurances from the Management Team and inputs from the relevant assurance providers, the Board is of the view and to the best of its knowledge that the system of risk management and internal control is satisfactory and is adequate to safeguard Shareholders' investments, customers' interest and Group's assets. The Group will continue to take measures to preserve, protect and strengthen the risk management and internal control environment. The internal control systems do not apply to our associate company, which fall within the control of the associate.

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the financial year ended 31 December 2020, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

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

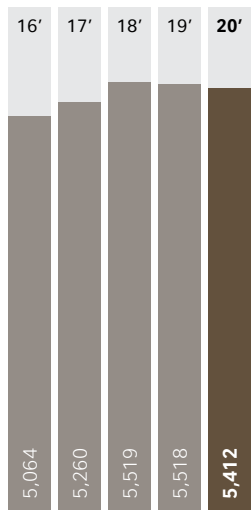
AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The report from the external auditors was made solely for, and directed solely to the Board of Directors in connection with their compliance with the Listing Requirements of Bursa Securities and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the Board of Directors in respect of any aspect of this report.

This Statement on Risk Management and Internal Control was presented and approved by the Board on 23 February 2021.

Key Highlights

- Delivered another year of resilient results with revenue of RM5.4 billion despite a challenging environment.
- The Group's core F&B business recorded sales growth of 2.3%, building on solid sales execution and engaging brand campaigns.
- The Group recorded stable profit margins with Profit After Tax of RM553 million. The contraction against 2019 was mainly due to the impact of COVID-19 on Out-of-Home channels and significant COVID-19 related expenses invested into pandemic relief efforts and comprehensive measures to preserve employee safety and operational continuity.
- Third interim dividend of RM0.92 per share, bringing total dividends for the year to RM2.32 per share.

Revenue
(RM million)



Profit Before Tax
(RM million)



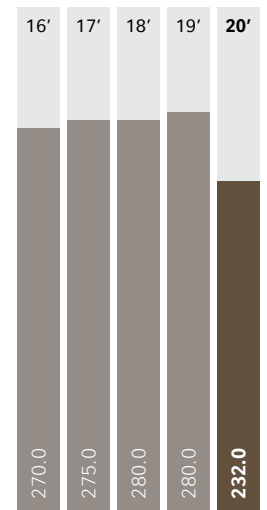
Net Profit
(RM million)



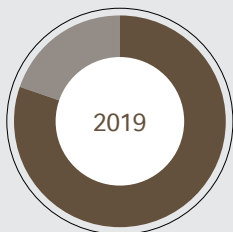
Earnings per share
(sen)



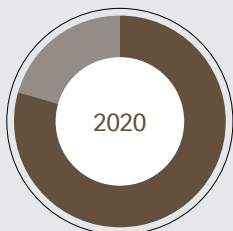
Net Dividend per share
(sen)



Total sales
(%)



- Domestic: 80.4%
- Export: 19.6%



- Domestic: 79.7%
- Export: 20.3%

Growth
(RM million)

Domestic



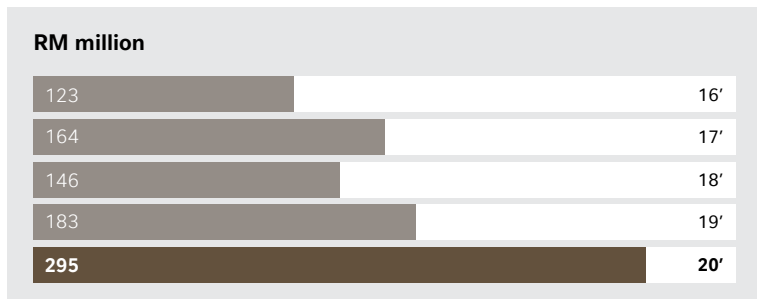
Export



Financial Calendar

Dividends	First Interim	Second Interim	Third interim	Annual General Meeting
Announced	25 August 2020	10 November 2020	23 February 2021	
Record date	15 September 2020	27 November 2020	21 April 2021	28 April 2021
Paid/ Payable	8 October 2020	16 December 2020	20 May 2021	

Capital Expenditure



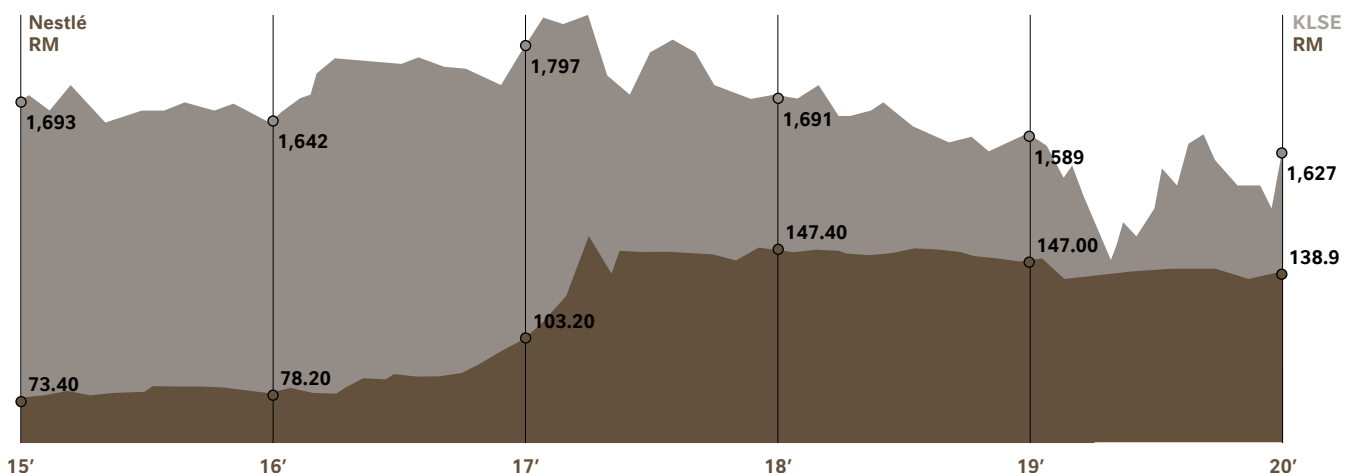
Major projects in 2020:

- Shah Alam - New Plant-Based Meal Solutions manufacturing line
- Batu Tiga - Expansion of MAGGI manufacturing line
- Head Office - Renovation of new head office
- Trade Asset - New and replacement of Vending machines

Share Performance

	Calendar Year				
	2020	2019	2018	2017	2016
During the year					
Highest - RM	147.50	150.40	157.40	103.20	81.80
Lowest - RM	133.20	143.30	113.30	74.12	73.00
Last Trading Day - RM	138.90	147.00	147.40	103.20	78.20

Share Prices (Bursa Malaysia) - Close



Group Financial Highlights

		2020	2019	+ / (-)
Revenue	(RM'000)	5,412,180	5,518,076	-1.9%
Earnings / Cash Flow				
Profit before tax	(RM'000)	724,769	875,725	-17.2%
% of revenue		13.4%	15.9%	
Profit after tax and minority interest	(RM'000)	552,713	672,913	-17.9%
% of revenue		10.2%	12.2%	
Dividends paid & proposed (net)	(RM'000)	544,040	656,600	-17.1%
Depreciation, amortisation and impairment	(RM'000)	182,259	177,300	
Cash flow (net profit + depreciation + amortisation + impairment)	(RM'000)	734,972	850,213	
Capital expenditure	(RM'000)	294,553	183,253	
Shareholders' funds	(RM'000)	557,136	664,924	
Personnel	(no.)	5,018	4,686	
Factories	(no.)	6	6	
Per Share				
Market price ¹	(RM)	138.90	147.00	
Earnings ²	(sen)	235.70	286.96	
Price earnings ratio		58.93	51.23	
Dividend (net)	(sen)	232.00	280.00	
Dividend yield	(%)	1.7	1.9	
Dividend cover ²	(no.)	1.0	1.0	
Shareholders' funds	(RM)	2.38	2.84	
Net tangible assets ³	(RM)	2.10	2.55	

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

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

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

5 Years' Statistics

For the year ended 31 December 2020

	2020 RM'000	2019 RM'000	2018 RM'000	2017 RM'000	2016 RM'000	
Revenue	5,412,180	5,518,076	5,519,045	5,260,490	5,063,506	
Earnings / Cash Flow						
Profit before tax	724,769	875,725	875,890	812,216	766,494	
% of revenue	13.4%	15.9%	15.9%	15.4%	15.1%	
Profit after tax and minority interest	552,713	672,913	658,882	642,550	637,127	
% of revenue	10.2%	12.2%	11.9%	12.2%	12.6%	
Dividends paid & proposed (net)	544,040	656,600	656,600	644,875	633,150	
Depreciation, amortisation and impairment	182,259	177,300	165,354	158,104	138,040	
Cash flow (net profit + depreciation + amortisation + impairment)	734,972	850,213	824,236	800,654	775,167	
% of revenue	13.6%	15.4%	14.9%	15.2%	15.3%	
Capital expenditure	294,553	183,253	145,671	164,455	123,136	
Employment of Assets						
Fixed assets (net)	1,662,081	1,532,045	1,507,131	1,432,211	1,353,050	
Associated company	5,614	5,367	5,084	4,709	4,224	
Intangible assets	64,500	65,795	67,546	61,986	62,400	
Deferred tax assets	36,238	34,511	30,572	20,523	20,155	
Receivables, deposits & prepayments	13,056	15,807	21,533	24,283	24,745	
Net current liabilities ¹	(736,947)	(581,737)	(566,663)	(577,999)	(546,807)	
Total	1,044,542	1,071,788	1,065,203	965,713	917,767	
Financed by						
Share capital ²	267,500	267,500	267,500	267,500	234,500	
Reserves	289,636	397,424	386,833	368,394	412,721	
Total shareholders' funds	557,136	664,924	654,333	635,894	647,221	
Deferred tax liabilities	133,968	138,597	135,390	120,987	91,260	
Employee benefits	90,592	91,444	95,282	89,749	86,140	
Borrowings and financial liabilities	262,846	176,823	180,198	119,083	93,146	
Total	1,044,542	1,071,788	1,065,203	965,713	917,767	
Per Share						
Market price ³	(RM)	138.90	147.00	147.40	103.20	78.20
Earnings ⁴	(sen)	235.70	286.96	280.97	274.01	271.70
Price earnings ratio		58.93	51.23	52.46	37.66	28.78
Dividend (net)	(sen)	232.00	280.00	280.00	275.00	270.00
Dividend yield	(%)	1.7	1.9	1.9	2.7	3.5
Dividend cover ⁴	(no.)	1.0	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	2.38	2.84	2.79	2.71	2.76
Net tangible assets ⁵	(RM)	2.10	2.55	2.50	2.45	2.49
Personnel	(no.)	5,018	4,686	5,267	5,338	5,505
Factories	(no.)	6	6	7	7	8

¹ The Group has adequate credit facilities to fund the net current liabilities.

² In accordance with Section 618 (2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital in 2017.

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

⁴ Earnings per share and dividend cover are based on profit after tax.

⁵ Net tangible assets consists of issued share capital plus reserves less intangible assets.

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities and other information of the subsidiaries are disclosed in Note 7 to the financial statements.

RESULTS

	Group	Company
	RM'000	RM'000
Profit net of tax	552,713	543,460
Profit attributable to owners of the parent	552,713	543,460

There were no material transfers to or from reserves or provisions during the year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amounts of dividends paid by the Company since 31 December 2019 were as follows:

	RM'000
In respect of the year ended 31 December 2019 as reported in the Directors' report of that year:	
Third tax exempt (single-tier) interim dividend of 140 sen per share, on 234,500,000 ordinary shares, declared on 25 February 2020 and paid on 21 May 2020	328,300
In respect of the year ended 31 December 2020:	
First tax exempt (single-tier) interim dividend of 70 sen per share, on 234,500,000 ordinary shares, declared on 25 August 2020 and paid on 8 October 2020	164,150
Second tax exempt (single-tier) interim dividend of 70 sen per share, on 234,500,000 ordinary shares, declared on 10 November 2020 and paid on 16 December 2020	164,150
	656,600

The Board of Directors has proposed a third tax exempt (single-tier) interim dividend after year end in respect of the year ended 31 December 2020, of 92 sen per share on 234,500,000 ordinary shares, amounting to a dividend payable of RM215,740,000. The financial statements for the current year do not reflect this proposed dividend. Such dividend will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2021.

DIRECTORS

The names of the Directors of the Company in office since the beginning of the year to the date of this report are:

Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	
Dato' Mohd. Rafik bin Shah Mohamad	
Dato' Dr. Nirmala Menon	
Dato' Hamidah Naziadin	(Appointed on 1 May 2020)
Datin Sri Azlin Arshad	(Appointed on 1 May 2020)
Juan Jose Aranols Campillo **	
Craig Grant Connolly **	
Tan Sri Datuk (Dr.) Rafiah Salim	(Retired on 30 April 2020)
Dato' Frits van Dijk	(Retired on 30 April 2020)

** These Directors are also Directors of the Company's subsidiaries.

The name of the Director of the Company's subsidiaries in office since the beginning of the year to the date of this report (not including those Directors listed above) is:

Alessandro Monica

DIRECTORS' BENEFITS

Neither at the end of the year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the shares granted under the Performance Stock Unit Plan ("PSUP") of the ultimate holding company.

Since the end of the previous year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown below) by reason of a contract made by the Company or a related corporation with any 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.

The Directors' benefits are as follows:

	Group RM'000	Company RM'000
Fees	1,240	1,240
Remuneration	6,248	140
Estimated money value of benefits-in-kind	1,049	-
Post-employment benefits	266	-
Share-based payments	2,483	-
Insurance effected to indemnify Directors*	18	18
	11,304	1,398

*The Company maintains a liability insurance for the Directors of the Group. The total amount of sum insured for Directors of the Group for the year amounted to RM43,449,800.

Directors' Report

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the year in shares in the ultimate holding company during the year were as follows:

	Number of ordinary shares			
	1.1.2020	Acquired	Sold	31.12.2020
Direct interest:				
<i>Ordinary shares of the ultimate holding company (Nestlé S.A.)</i>				
Juan Jose Aranols Campillo	10,710	7,067	5,547	12,230
Craig Grant Connolly	-	2,395	569	1,826

None of the other Directors in office at the end of the year had any interest in shares in the Company or its related corporations during the year.

HOLDING COMPANY

The immediate and ultimate holding company is Nestlé S.A., which is incorporated in Switzerland and listed on the Swiss Stock Exchange ("SIX").

OTHER STATUTORY INFORMATION

- (a) 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:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

OTHER STATUTORY INFORMATION (CONTD.)

- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the year which will or may affect the ability of the Group and of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the year in which this report is made.

SIGNIFICANT EVENTS

In addition to the significant events disclosed elsewhere in this report, other significant event is disclosed in Note 33 to the financial statements.

AUDITORS

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration for the statutory audit is as follows:

	Group RM'000	Company RM'000
Ernst & Young PLT	620	80

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 February 2021.

Juan Jose Aranols Campillo

Craig Grant Connolly

Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

We, Juan Jose Aranols Campillo and Craig Grant Connolly, being two of the Directors of Nestlé (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 54 to 135 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 February 2021.

Juan Jose Aranols Campillo

Craig Grant Connolly

Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Craig Grant Connolly, being the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 54 to 135 are in my opinion 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 abovenamed Craig Grant Connolly at Petaling Jaya, Selangor Darul Ehsan
on 23 February 2021

Craig Grant Connolly

Before me,

Guna Papoo

Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 54 to 135.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By- Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there is no key audit matter to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Key audit matters (contd.)

Revenue recognition

We draw your attention to Note 2.20 and Note 18 to the financial statements.

Total revenue for the Group for the year ended 31 December 2020 amounted to RM5.4 billion, which represents the most significant amount in the financial statements of the Group.

Revenue from the sale of goods is recognised when there is a transfer of control over a product to the customers, and is measured based on the consideration specified in a contract, net of pricing allowances, other trade discounts, and price promotions to customers (collectively referred to as "trade spend").

We considered the measurement and completeness of trade spend to be a key focus area due to the complexity and diversity of trade spend arrangements.

In addressing this area of focus, we have performed, amongst others, the following procedures:

- a) We have obtained an understanding over the sales process and trade spend arrangements and tested related controls over the completeness, measurement and recording of trade spend.
- b) We have reviewed the trade spend arrangements entered into with customers, on a sampling basis, to obtain an understanding of the specific terms and conditions.
- c) We have tested that the trade spend committed were appropriately accrued for in the current year by checking to the credit notes issued to customers subsequent to reporting date.
- d) We have performed re-computation of trade spend, on a sampling basis, based on the entitlement criteria.

Costing of self-manufactured inventories

We draw your attention to Note 2.14 and Note 10 to the financial statements.

As at 31 December 2020, the Group held RM597 million of inventories which represented 21% of total assets of the Group. The cost of inventories charged to the consolidated income statement for the year ended 31 December 2020 amounted to RM3,121 million, accounting for 67% of total expenditure of the Group.

The cost of production comprises the cost of direct materials, labour costs, plus conversion costs such as variable and fixed manufacturing overheads. The Group relies on information technology system to ensure that the cost of direct materials, labour costs, plus conversion costs are correctly allocated to a diverse range of products manufactured by the Group. As this is our initial audit, we considered it important for us to obtain a thorough understanding of the costing of inventories and accordingly, this was an area of focus for our audit.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)**Key audit matters (contd.)****Costing of self-manufactured inventories (contd.)**

In addressing this area of focus, we have performed, amongst others, the following procedures:

- a) We have obtained an understanding of the Group's current inventories valuation policy, production processes and the types of costs included in the valuation of inventories.
- b) We have involved our information technology specialists to test the operating effectiveness of the controls over the inventories valuation, including those on the allocation of costs of raw materials, labour costs, and overhead costs to the respective products.
- c) We have agreed, on a sampling basis, the actual costs of direct materials, labour costs and overhead costs to supporting documents such as supplier invoices and payroll records; and the quantity of inventories produced to production records.
- d) We have obtained an understanding of management's process for computing standard costing and recomputed the standard costing of selected inventories. We also observed management's procedures for updating the standard costing into the information technology system.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate action.

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditors' responsibilities for the audit of the financial statements (contd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (contd.)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matters

The financial statements of the Group and of the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 25 February 2020.

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Ng Kim Ling
No. 03236/04/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
23 February 2021

Statements of Financial Position

As at 31 December 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Assets					
Non-current assets					
Property, plant and equipment	4	1,423,843	1,277,861	-	-
Right-of-use assets	5	238,238	254,184	-	-
Intangible assets	6	64,500	65,795	-	-
Investments in subsidiaries	7	-	-	188,022	188,022
Investment in an associate	8	5,614	5,367	3,000	3,000
Deferred tax assets	9	36,238	34,511	-	-
Trade and other receivables	11	13,056	15,807	-	-
		1,781,489	1,653,525	191,022	191,022
Current assets					
Inventories	10	597,270	551,827	-	-
Trade and other receivables	11	472,705	508,097	294,560	408,111
Current tax assets		548	2,690	-	-
Cash and bank balances	12	9,359	10,399	-	-
		1,079,882	1,073,013	294,560	408,111
Assets classified as held for sale	13	-	-	-	-
		1,079,882	1,073,013	294,560	408,111
Total assets		2,861,371	2,726,538	485,582	599,133
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	14	267,500	267,500	267,500	267,500
Reserves		(3,534)	(931)	-	-
Retained earnings		293,170	398,355	216,507	329,647
Total equity		557,136	664,924	484,007	597,147
Current liabilities					
Loans and borrowings	15	257,701	257,431	-	-
Lease liabilities	5	31,063	28,753	-	-
Trade and other payables	16	1,480,838	1,321,407	1,486	1,858
Current tax liabilities		47,227	47,159	89	128
		1,816,829	1,654,750	1,575	1,986

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Non-current liabilities					
Loans and borrowings	15	100,000	-	-	-
Lease liabilities	5	162,846	176,823	-	-
Employee benefits	17	90,592	91,444	-	-
Deferred tax liabilities	9	133,968	138,597	-	-
		487,406	406,864	-	-
Total liabilities		2,304,235	2,061,614	1,575	1,986
Total equity and liabilities		2,861,371	2,726,538	485,582	599,133

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	18	5,412,180	5,518,076	544,490	662,050
Cost of sales		(3,446,678)	(3,444,561)	-	-
Gross profit		1,965,502	2,073,515	544,490	662,050
Other income		-	20,960	-	-
Selling and distribution expenses		(946,492)	(977,094)	-	-
Administrative expenses		(211,159)	(192,373)	(2,405)	(3,495)
Other expenses		(52,404)	(16,399)	(4)	(14)
Reversal of impairment loss on trade receivables		553	3,384	-	-
Results from operating activities		756,000	911,993	542,081	658,541
Finance income		3,538	3,662	1,813	2,465
Finance costs		(35,466)	(40,663)	-	-
Net finance (costs)/income		(31,928)	(37,001)	1,813	2,465
Share of profit of an equity-accounted associate, net of tax		697	733	-	-
Profit before tax	19	724,769	875,725	543,894	661,006
Income tax expense	22	(172,056)	(202,812)	(434)	(753)
Profit net of tax		552,713	672,913	543,460	660,253
Other comprehensive expense, net of tax:					
Item that may be reclassified to profit or loss in subsequent periods					
Net loss on cash flow hedges		(2,603)	(3,429)	-	-
Item that will not be reclassified to profit or loss in subsequent periods					
Remeasurement loss on defined benefit liability		(1,298)	(2,293)	-	-
Other comprehensive expense for the year, net of tax	23	(3,901)	(5,722)	-	-
Total comprehensive income for the year, net of tax		548,812	667,191	543,460	660,253
Profit attributable to owners of the parent		552,713	672,913	543,460	660,253
Total comprehensive income attributable to owners of the parent		548,812	667,191	543,460	660,253
Earnings per share attributable to owners of the parent (sen)					
- Basic	24	236	287		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the year ended 31 December 2020

	Note	Attributable to owners of the parent			Total equity RM'000
		Non-distributable		Distributable	
		Share capital RM'000	Hedging reserve RM'000	Retained earnings RM'000	
Group					
At 1 January 2020		267,500	(931)	398,355	664,924
Cash flow hedge		-	(2,603)	-	(2,603)
Remeasurement of defined benefit liability		-	-	(1,298)	(1,298)
Other comprehensive expense for the year		-	(2,603)	(1,298)	(3,901)
Profit for the year		-	-	552,713	552,713
Total comprehensive (expense)/income for the year		-	(2,603)	551,415	548,812
Dividends to owners	25	-	-	(656,600)	(656,600)
Total transactions with owners		-	-	(656,600)	(656,600)
At 31 December 2020		267,500	(3,534)	293,170	557,136
At 1 January 2019		267,500	2,498	384,335	654,333
Cash flow hedge		-	(3,429)	-	(3,429)
Remeasurement of defined benefit liability		-	-	(2,293)	(2,293)
Other comprehensive expense for the year		-	(3,429)	(2,293)	(5,722)
Profit for the year		-	-	672,913	672,913
Total comprehensive (expense)/income for the year		-	(3,429)	670,620	667,191
Dividends to owners	25	-	-	(656,600)	(656,600)
Total transactions with owners		-	-	(656,600)	(656,600)
At 31 December 2019		267,500	(931)	398,355	664,924

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the year ended 31 December 2020

	Note	Non-distributable Share capital RM'000	Distributable Retained earnings RM'000	Total equity RM'000
Company				
At 1 January 2020		267,500	329,647	597,147
Profit and total comprehensive income for the year		-	543,460	543,460
Dividends to owners, representing total transactions with owners	25	-	(656,600)	(656,600)
At 31 December 2020		267,500	216,507	484,007
At 1 January 2019				
		267,500	325,994	593,494
Profit and total comprehensive income for the year		-	660,253	660,253
Dividends to owners, representing total transactions with owners	25	-	(656,600)	(656,600)
At 31 December 2019		267,500	329,647	597,147

Statements of Cash Flows

For the year ended 31 December 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from operating activities					
Profit before tax		724,769	875,725	543,894	661,006
Adjustments for:					
Property, plant and equipment:					
- depreciation	4	140,464	133,506	-	-
- loss/(gain) on disposal	19	322	(852)	-	-
- impairment loss	4	5,793	9,812	-	-
- written off	4	1,529	5,704	-	-
Depreciation of right-of-use assets	5	34,707	32,411	-	-
Intangible assets:					
- amortisation	6	1,295	1,571	-	-
- written off	6	-	180	-	-
Dividend income	18	-	-	(544,490)	(662,050)
Expenses related to defined benefit plans	20	4,894	5,897	-	-
Finance costs		35,466	40,663	-	-
Finance income		(3,538)	(3,662)	(1,813)	(2,465)
Net gain on divestment	19	-	(20,960)	-	-
Net (reversal of)/write-down of slow moving inventories	19	(2,099)	3,670	-	-
Net unrealised foreign exchange differences	19	(419)	3,329	-	-
Share-based payment expense	20	15,604	10,919	-	-
Share of profit of an equity-accounted associate, net of tax	8	(697)	(733)	-	-
Trade receivables:					
- net reversal of impairment loss	19	(553)	(3,384)	-	-
- written off	19	1,138	683	-	-
Operating cash flows before changes in working capital		958,675	1,094,479	(2,409)	(3,509)

Statements of Cash Flows

For the year ended 31 December 2020

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cash flows from operating activities (contd.)					
Changes in working capital:					
Inventories		(43,344)	(30,472)	-	-
Trade and other payables		140,342	(228,884)	(372)	167
Trade and other receivables		36,041	108,853	113,551	1,133
Cash flows from/(used in) operations		1,091,714	943,976	110,770	(2,209)
Dividends received from subsidiaries		-	-	544,040	656,600
Retirement benefits paid	17	(7,454)	(12,752)	-	-
Income tax paid		(174,971)	(204,926)	(473)	(706)
Net cash flows generated from operating activities		909,289	726,298	654,337	653,685
Cash flows from investing activities					
Acquisition of property, plant and equipment	4	(294,553)	(183,253)	-	-
Dividends received from associate		450	450	450	450
Finance income received		3,538	3,662	1,813	2,465
Net proceeds from divestment		-	99,005	-	-
Proceeds from disposal of property, plant and equipment		463	2,359	-	-
Net cash flows (used in)/from investing activities		(290,102)	(77,777)	2,263	2,915
Cash flows from financing activities					
Dividends paid		(656,600)	(656,600)	(656,600)	(656,600)
Finance costs paid		(35,466)	(40,663)	-	-
Payment of lease liabilities		(28,669)	(26,243)	-	-
Proceeds from borrowings		105,634	100,000	-	-
Net cash flows used in financing activities		(615,101)	(623,506)	(656,600)	(656,600)
Net increase in cash and cash equivalents		4,086	25,015	-	-
Cash and cash equivalents at beginning of year		(32,428)	(57,443)	-	-
Cash and cash equivalents at end of year	12	(28,342)	(32,428)	-	-

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Note	Loan from a related company RM'000	Revolving credit - unsecured RM'000	Lease liabilities RM'000	Total RM'000
Group					
At 1 January 2020		114,604	100,000	205,576	420,180
Net changes from financing cash flows		(14,366)	120,000	(28,669)	76,965
Foreign exchange movement		(238)	-	-	(238)
Addition, modification and expiration of lease contracts	5	-	-	17,002	17,002
At 31 December 2020		100,000	220,000	193,909	513,909
At 1 January 2019					
		115,850	-	206,976	322,826
Net changes from financing cash flows		-	100,000	(26,243)	73,757
Foreign exchange movement		(1,246)	-	-	(1,246)
Addition and modification of lease contracts	5	-	-	24,843	24,843
At 31 December 2019		114,604	100,000	205,576	420,180

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company are located at 22-1, 22nd Floor, Menara Surian, No 1, Jalan PJU7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan.

The immediate and ultimate holding company is Nestlé S.A., which is incorporated in Switzerland and listed on the Swiss Stock Exchange ("SIX").

Subsequent to the year end, the shareholding of Nestlé S.A. was transferred to Société des Produits Nestlé S.A. ("SPN"), a wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland. Following this, SPN is the Company's immediate holding company, effective from 18 January 2021.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are disclosed in Note 7 to the financial statements. There have been no significant changes in the nature of the principal activities during the year.

The financial statements were authorised for issue by the Board of Directors on 23 February 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The financial statements have been prepared on a historical cost basis except otherwise disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except as follows:

On 1 January 2020, the Group and the Company adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2020. The Group and the Company have early adopted amendments to MFRS 16: Covid-19-Related Rent Concessions for the year ended 31 December 2020.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 16: Covid-19-Related Rent Concessions	1 June 2020

The adoption of the above amendments did not have any significant impact on the financial statements of the Group and of the Company.

2.3 Standards issued but not yet effective

The standards, amendments and interpretations that are issued but not yet effective up to the date of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16: Interest Rate Benchmark Reform - Phase 2	1 January 2021
Amendments to MFRS 1, MFRS 9 and MFRS 141: Annual Improvements to MFRS Standards 2018-2020	1 January 2022
Amendments to MFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 116: Property, Plant and Equipment-Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137: Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2023
MFRS 17: Insurance Contracts	1 January 2023
Amendments to MFRS 17: Insurance Contracts	1 January 2023
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Directors expect that the adoption of the above standards, amendments and interpretations are not expected to have a material impact on the financial statements in the period of initial application.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and of its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, unrealised gains and losses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or if significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interests in the acquiree are re-measured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss.

Any excess of the cost of business combination, as the case may be, over the net amount of the fair value of identifiable assets acquired and liabilities assumed is recognised as goodwill. For business combinations, provisions are made for the acquiree's contingent liabilities existing at the date of acquisition as the Group deems that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

Any excess in the Group's interest in the net fair value of the identifiable assets acquired and liabilities assumed over the cost of business combination is recognised immediately in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statements of comprehensive income in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Business combinations and goodwill (contd.)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the entity acquired is reflected within equity as merger reserve. The statements of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities have always been combined since the date the entities had come under common control.

2.6 Investments in subsidiaries

A subsidiary is an entity over which the Group has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries is accounted for at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and the carrying amount is included in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.7 Investment in an associate

An associate is an entity over in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investment in an associate is accounted for using the equity method. Under the equity method, the investment in an associate is measured in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to associate is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss for the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss within share of profit of an associate in the statements of comprehensive income.

The financial statements of the associate are prepared as of the same reporting date as the Group unless it is impracticable to do so. When the financial statements of associate used in applying the equity method are prepared as of a different reporting date from that of the Group, adjustments are made for the effects of significant transactions or events that occur between that date and the reporting date of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2.8 Foreign currencies

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Foreign currencies (contd.)

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income, or a financial instrument designated as cash flow hedge, which are recognised in other comprehensive income.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the statement of comprehensive income for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. Exchange differences arising from such non-monetary items are also recognized directly in equity.

2.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the Group and the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under MFRS 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(a) Financial assets (contd.)

Initial recognition and measurement (contd.)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company's business model for managing financial assets refers to how they manage their financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Company commit to purchase or sell the asset.

Subsequent measurement

The measurement of financial assets depends on their classification, as described below:

(i) Financial assets at amortised cost

The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's and the Company's financial assets at amortised cost include cash and bank balances, trade and other receivables and other non-current financial assets.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(a) Financial assets (contd.)

Subsequent measurement (contd.)

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

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statements of comprehensive income.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

A derivative embedded in a hybrid contract, with a financial liability or nonfinancial host, is separated from the host and accounted for as a separate derivative if:

- the economic characteristics and risks are not closely related to the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value through profit or loss.

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(a) Financial assets (contd.)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's and the Company's statements of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group and the Company have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) the Group and the Company have transferred substantially all the risks and rewards of the asset, or
 - (b) the Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Company have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Impairment of financial assets

The Group and the Company recognise an allowance for expected credit losses ("ECLs") for all debts instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sales of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within next 12 months ("a 12 months ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default ("a lifetime ECL").

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(a) Financial assets (contd.)

Impairment of financial assets (contd.)

For trade receivables, the Group applies simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on historical credit experience. The Group considers forward looking factors do not have significant impact to credit risk given the nature of its industry and the amount of the ECLs is insensitive to changes to forecast economic conditions.

The Group and the Company consider a financial assets to be default when internal and external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. Financial assets is written off when there is no reasonable expectation of recovering the contractual cash flows.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group and the Company's financial liabilities include trade and other payables, other current liabilities, derivative financial instruments, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(b) Financial liabilities (contd.)

Subsequent measurement (contd.)

(i) Financial liabilities at fair value through profit or loss (contd.)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by MFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statements of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group has designated derivative financial instruments as financial liability at fair value through profit or loss.

(ii) Financial liabilities at amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

After initial recognition, it is subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statements of comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables. For more information, refer to Note 15 and 16.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statements of comprehensive income.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.9 Financial instruments (contd.)

(b) Financial liabilities (contd.)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated and separate statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.10 Derivative financial instruments and hedging activities

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward exchange contracts and commodity futures to hedge its foreign currency risks and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; and
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.10 Derivative financial instruments and hedging activities (contd.)

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statements of comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

2.11 Property, plant and equipment

Capital work-in-progress is stated at cost, net of accumulated impairment loss, if any. Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Property, plant and equipment (contd.)

Capital work-in progress are not depreciated as these assets are not available for use. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the statements of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.12 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Leasehold land	36 – 99 years
Buildings	3 – 10 years
Tools and equipment	4 – 6 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflect the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policy in Note 2.16 Impairment of non-financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.12 Leases (contd.)

Group as lessee (contd.)

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of tools and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of photocopiers that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

2.13 Intangible assets

Development cost

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.14 Inventories

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

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

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

2.15 Cash and bank balances

Cash and bank balances in the statements of financial position comprise cash at banks and on hand and short-term deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.16 Impairment of non-financial assets

The Group and the Company assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Company estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group and the Company base their impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's and the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.16 Impairment of non-financial assets (contd.)

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

Goodwill is tested for impairment annually at reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the recoverable amount of the asset or CGU is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

2.17 Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the year in which the associated services are rendered by employees. Short-term accumulated compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

Companies incorporated in Malaysia contribute to the Employees Provident Fund, the defined contribution plan. The Group's contributions are charged to the statements of comprehensive income. Once the contributions have been paid, the Group has no further payment obligations.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.17 Employee benefits (contd.)

(iii) Defined benefit pension plan

The Group operates a defined benefit pension plan which is administered by Nestlé Malaysia Group Retirement Scheme ("NMGRS").

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statements of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'administrative expenses' in the statements of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income

(iv) Termination benefits

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

(v) Share-based payment transactions

Performance Stock Unit Plan ("PSUP")

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.18 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.

Restoration cost

Provision for restoration cost is estimated cost of dismantling, removing or restoring the buildings at the lease inception date for leases with requirements to remove leasehold improvements at the end of the lease term.

2.19 Current versus non-current classification

The Group and the Company present assets and liabilities in statements of financial position based on current/non-current classification. An asset is current when it is:

- (i) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period; or
- (iv) Cash and bank balances unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

2.20 Revenue

(i) Sale of goods

Revenue is recognised at point in time upon transfer of control of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated volume rebates. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.20 Revenue (contd.)

(ii) Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

(iii) Finance income

Finance income is recognised on an accrual basis using the effective interest method.

2.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.22 Taxes

(a) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group and the Company operate and generate taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries and associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.22 Taxes (contd.)

(b) Deferred tax (contd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- (i) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

(c) Sales and services tax ("SST")

Revenue, expenses and assets are recognised net of the amount of SST, except:

- (i) when the SST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the SST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- (ii) when receivables and payables are stated with the amount of SST included.

The payable amount of SST to the taxation authority is included as part of payables in the statements of financial position.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.23 Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 26, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.24 Contingent liabilities

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group and of the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group and of the Company.

2.25 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available, are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.25 Fair value measurement (contd.)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Policies and procedures are determined by senior management for both recurring fair value measurement and for non-recurring measurement.

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided by senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the senior management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the senior management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The senior management, in conjunction with the external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

Determining the lease term of contracts with renewal and termination option

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Measurement of recoverable amount of CGU for goodwill impairment test

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next three years of the CGU being tested. The key assumptions used to determine the recoverable amount for the CGU, including a sensitivity analysis, are disclosed and further explained in Note 6.

Measurement of ECL

The Group uses an allowance matrix to measure ECLs of trade receivables from individual customers, which comprise a very large number of insignificant outstanding balances.

To measure the ECLs, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its ECL is assessed individually by considering historical payment trends and financial strength of the receivable.

3.2 Critical judgement in applying the entity's accounting policies

There is no critical judgement made by management in the process of applying the accounting policies that have a significant effect on the amounts recognised in financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	Note	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
Group							
2020							
Cost							
At 1 January 2020		599,209	2,217,861	18,187	120,064	49,999	3,005,320
Additions		5,613	60,700	2,693	9,567	215,980	294,553
Disposals		-	(2,650)	(676)	(3,343)	-	(6,669)
Written off		-	(12,943)	-	(1,216)	-	(14,159)
Transfer in/(out)		2,242	8,708	-	284	(11,234)	-
At 31 December 2020		607,064	2,271,676	20,204	125,356	254,745	3,279,045
Accumulated depreciation and impairment							
At 1 January 2020		207,332	1,420,999	10,953	88,175	-	1,727,459
Charge for the year	19	17,207	108,986	2,232	12,039	-	140,464
Impairment loss		105	5,688	-	-	-	5,793
Disposals		-	(1,982)	(559)	(3,343)	-	(5,884)
Written off		-	(11,435)	-	(1,195)	-	(12,630)
At 31 December 2020		224,644	1,522,256	12,626	95,676	-	1,855,202
Analysed as:							
Accumulated depreciation		216,402	1,487,791	12,626	95,020	-	1,811,839
Accumulated impairment loss		8,242	34,465	-	656	-	43,363
		224,644	1,522,256	12,626	95,676	-	1,855,202
Net carrying amount		382,420	749,420	7,578	29,680	254,745	1,423,843

Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Note	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
Group							
2019							
Cost							
At 1 January 2019		585,290	2,165,130	17,281	110,495	39,810	2,918,006
Additions		14,003	129,645	3,630	14,094	21,881	183,253
Disposals		(6)	(17,383)	(2,724)	(2,648)	-	(22,761)
Written off		(2,445)	(68,651)	-	(3,214)	-	(74,310)
Transfer in/(out)		2,367	8,103	-	1,222	(11,692)	-
Transfer from assets classified as held for sale	13	-	1,017	-	115	-	1,132
At 31 December 2019		599,209	2,217,861	18,187	120,064	49,999	3,005,320
Accumulated depreciation and impairment							
At 1 January 2019		190,358	1,388,851	11,153	82,080	-	1,672,442
Charge for the year	19	15,719	105,016	1,837	10,934	-	133,506
Impairment loss		1,771	7,623	-	418	-	9,812
Disposals		(6)	(16,578)	(2,037)	(2,633)	-	(21,254)
Written off		(510)	(65,434)	-	(2,662)	-	(68,606)
Transfer from assets classified as held for sale	13	-	1,521	-	38	-	1,559
At 31 December 2019		207,332	1,420,999	10,953	88,175	-	1,727,459
Analysed as:							
Accumulated depreciation		199,195	1,392,222	10,953	87,519	-	1,689,889
Accumulated impairment loss		8,137	28,777	-	656	-	37,570
		207,332	1,420,999	10,953	88,175	-	1,727,459
Net carrying amount		391,877	796,862	7,234	31,889	49,999	1,277,861

Impairment loss

During the year, the Group has recognised an impairment loss of RM5,793,000 (2019: RM9,812,000) in respect of plant and equipment based on the recoverable amount of the assets.

5. LEASES

The Group leases its office space, distribution centre, retail stores and tools and equipment. The leases of office space and distribution centre typically run for a period of ten years and retail stores for three to five years. The leases of office space and distribution centre include an option to renew the lease for an additional period of two terms of three years after the end of the contract term.

The Group also has certain leases of tools and equipment with lease term of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for the leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Note	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Total RM'000
Group					
2020					
Cost					
At 1 January 2020		69,958	287,428	36,484	393,870
Additions		-	35,569	1,249	36,818
Expiration of lease contracts		-	(122)	-	(122)
Modification of lease contracts		-	(18,029)	-	(18,029)
At 31 December 2020		69,958	304,846	37,733	412,537
Accumulated depreciation					
At 1 January 2020		14,598	109,405	15,683	139,686
Charge for the year	19	1,148	26,825	6,734	34,707
Expiration of lease contracts		-	(94)	-	(94)
At 31 December 2020		15,746	136,136	22,417	174,299
Net carrying amount		54,212	168,710	15,316	238,238

Notes to the Financial Statements

5. LEASES (CONTD.)

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year: (contd.)

	Note	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Total RM'000
Group					
2019					
Cost					
At 1 January 2019		69,958	271,935	27,172	369,065
Additions		-	294	9,312	9,606
Expiration of lease contracts		-	(38)	-	(38)
Modification of lease contracts		-	15,237	-	15,237
At 31 December 2019		69,958	287,428	36,484	393,870
Accumulated depreciation					
At 1 January 2019		13,450	83,547	10,501	107,498
Charge for the year	19	1,333	25,896	5,182	32,411
Expiration of lease contracts		-	(38)	-	(38)
Transfer to assets classified as held for sale	13	(185)	-	-	(185)
At 31 December 2019		14,598	109,405	15,683	139,686
Net carrying amount		55,360	178,023	20,801	254,184

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Note	Group	
		2020 RM'000	2019 RM'000
At 1 January		205,576	206,976
Additions		35,059	9,606
Modification of lease contracts		(18,029)	15,237
Expiration of lease contracts		(28)	-
Accretion of interest	19	7,349	7,949
Payments		(36,018)	(34,192)
At 31 December		193,909	205,576
Current		31,063	28,753
Non-current		162,846	176,823

5. LEASES (CONTD.)

The maturity analysis of lease liabilities are disclosed in Note 28 (b) to the financial statements.

The following are the amounts recognised in profit or loss during the year:

	Note	Group	
		2020 RM'000	2019 RM'000
Depreciation of right-of-use assets	19	34,707	32,411
Interest expenses on lease liabilities	19	7,349	7,949
Expenses relating to short-term leases	19	35,849	42,065
Expenses relating to leases of low-value assets	19	326	427
Total amount recognised in profit or loss		78,231	82,852

The Group had total cash outflows for leases of RM72,193,000 (2019: RM76,684,000). The Group also had non-cash additions (including modifications) to right-of-use assets and lease liabilities of RM18,789,000 (2019: RM24,843,000) and RM17,030,000 (2019: RM24,843,000) respectively. The Group does not have future cash outflows relating to leases that have not yet commenced as at 31 December 2020 and 31 December 2019.

	Group	
	2020 RM'000	2019 RM'000
Cash outflows for leases as a lessee		
Included in net cash from operating activities:		
Payment relating to short-term leases	35,849	42,065
Payment relating to leases of low-value assets	326	427
	36,175	42,492
Included in net cash from financing activities:		
Finance cost of lease liabilities	7,349	7,949
Payment of lease liabilities	28,669	26,243
Total cash outflows for leases	72,193	76,684

Notes to the Financial Statements

6. INTANGIBLE ASSETS

	Note	Goodwill RM'000	Development costs RM'000	Total RM'000
Group				
2020				
Cost				
At 1 January 2020/31 December 2020		61,024	7,859	68,883
Accumulated depreciation				
At 1 January 2020		-	3,088	3,088
Amortisation for the year	19	-	1,295	1,295
At 31 December 2020		-	4,383	4,383
Net carrying amount		61,024	3,476	64,500
2019				
Cost				
At 1 January 2019		61,024	8,039	69,063
Written off	19	-	(180)	(180)
At 31 December 2019		61,024	7,859	68,883
Accumulated depreciation				
At 1 January 2019		-	1,517	1,517
Amortisation for the year	19	-	1,571	1,571
At 31 December 2019		-	3,088	3,088
Net carrying amount		61,024	4,771	65,795

The goodwill relates to the Group's ice-cream business unit. The development cost relates to the enhancement of the Group's SAP HANA and Globe Landscape Simplification ("GLS") system.

6. INTANGIBLE ASSETS (CONTD.)

Impairment testing for goodwill

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

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

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 3-year business plan.
- The anticipated revenue growth rate for the 3-year business plan is estimated to be 4.5% to 7.9% per annum (2019: 5.9% to 8.2% per annum).
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum (2019: 1% per annum).
- A discount rate of 6.5% (2019: 7.4%) 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).

Sensitivity to changes in assumptions

The management believes that any reasonably possible changes in the above key assumptions applied will not cause the CGU's recoverable amount to be lower than the carrying amount.

Notes to the Financial Statements

7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2020	2019
	RM'000	RM'000
Unquoted shares at cost	188,022	188,022

Details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Proportion of ownership interest	
			2020	2019
			%	%
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, 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, and related products	100	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	100	100

8. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Unquoted shares at cost	3,000	3,000	3,000	3,000
Share of post-acquisition reserves	2,614	2,367	-	-
	5,614	5,367	3,000	3,000

8. INVESTMENT IN AN ASSOCIATE (CONTD.)

Details of the associate are as follows:

Name of associate	Country of incorporation	Principal activities	Proportion of ownership interest	
			2020 %	2019 %
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of canned beverages	20	20

The following table illustrates the summarised financial information of the Group's investment in an associate:

	Group	
	2020 RM'000	2019 RM'000
Assets and liabilities		
Non-current assets	29,673	31,979
Current assets	40,813	39,464
Non-current liabilities	(4,076)	(2,792)
Current liabilities	(38,342)	(41,817)
Net assets	28,068	26,834
Group's share in equity	5,614	5,367
Results		
Revenue	213,175	222,757
Profit for the year	3,484	3,663
Group's share of profit for the year	697	733

Reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in an associate:

	Group	
	2020 RM'000	2019 RM'000
Net assets of the associate as at 1 January	26,834	25,421
Add: Profit for the year	3,484	3,663
Less: Dividends paid for the year	(2,250)	(2,250)
Net assets of the associate as at 31 December	28,068	26,834
Group's share of net assets	5,614	5,367

Notes to the Financial Statements

9. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Group						
Property, plant and equipment	-	-	(156,937)	(153,450)	(156,937)	(153,450)
Right-of-use assets	-	-	(44,166)	(47,717)	(44,166)	(47,717)
Lease liabilities	47,141	49,341	-	-	47,141	49,341
Employee benefit plans	24,998	24,588	-	-	24,998	24,588
Provisions	30,119	22,858	-	-	30,119	22,858
Hedging reserve	1,115	294	-	-	1,115	294
Tax assets/(liabilities)	103,373	97,081	(201,103)	(201,167)	(97,730)	(104,086)
Set off of tax	(67,135)	(62,570)	67,135	62,570	-	-
Net tax assets/(liabilities)	36,238	34,511	(133,968)	(138,597)	(97,730)	(104,086)

Movement in temporary differences during the year:

	Recognised			Recognised			
	Recognised in profit or loss At 1.1.2019 RM'000	Recognised in other comprehensive income (Note 22) RM'000	Recognised in other comprehensive income (Note 23) RM'000	At 31.12.2019/ 1.1.2020 RM'000	Recognised in profit or loss (Note 22) RM'000	Recognised in other comprehensive income (Note 23) RM'000	At 31.12.2020 RM'000
Group							
Property, plant and equipment	(152,308)	(1,142)	-	(153,450)	(3,487)	-	(156,937)
Right-of-use assets	(49,213)	1,496	-	(47,717)	3,551	-	(44,166)
Lease liabilities	49,674	(333)	-	49,341	(2,200)	-	47,141
Employee benefit plans	23,864	-	724	24,588	-	410	24,998
Provisions	23,854	(996)	-	22,858	7,261	-	30,119
Hedging reserve	(689)	-	983	294	-	821	1,115
	(104,818)	(975)	1,707	(104,086)	5,125	1,231	(97,730)

10. INVENTORIES

	Group	
	2020 RM'000	2019 RM'000
Cost		
Raw and packaging materials	249,363	248,762
Work-in-progress	30,815	37,219
Finished goods	280,469	233,456
Spare parts	36,623	32,390
	597,270	551,827

During the year, the amount of inventories recognised as an expense in the statements of comprehensive income of the Group was RM3,120,678,000 (2019: RM3,076,095,000).

11. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Non-current					
Loans to employees		13,056	15,807	-	-
Current					
Trade					
Third parties		175,861	205,919	-	-
Less: impairment loss		(31,662)	(32,215)	-	-
	(a)	144,199	173,704	-	-
Amounts due from related companies	(b)	189,902	188,925	-	-
Amount due from an associate	(b)	-	952	-	-
Designated as hedging instruments					
- Commodity futures		148	551	-	-
- Forward exchange contracts		8,383	5,970	-	-
		342,632	370,102	-	-

Notes to the Financial Statements

11. TRADE AND OTHER RECEIVABLES (CONTD.)

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current					
Non-trade					
Amounts due from subsidiaries	(c)	-	-	294,560	408,110
Amounts due from related companies	(b)	85,323	86,129	-	-
Other receivables and deposits	(d)	33,237	46,082	-	1
Prepayments		11,513	5,784	-	-
		130,073	137,995	294,560	408,111
		472,705	508,097	294,560	408,111
Total trade and other receivables		485,761	523,904	294,560	408,111

(a) Trade receivables

Credit risk management with respect to trade receivables is disclosed in Note 28 (a) to the financial statements.

(b) Amounts due from related companies and an associate

The trade receivables due from related companies and an associate are subject to the normal trade terms. The non-trade receivables due from related companies are advances to related companies which are unsecured, subject to interest at 2.10% to 3.54% (2019: 3.15% to 4.91%) per annum and repayable on demand.

(c) Amounts due from subsidiaries

The non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand, except for advances to a subsidiary of RM78,820,000 (2019: RM74,810,000) which is subject to interest at 1.81% to 3.13% (2019: 3.14% to 4.91%) per annum.

(d) Other receivables and deposits

Included in other receivables and deposits of the Group are loans to employees of RM8,505,000 (2019: RM10,218,000) which are unsecured and interest free and down payment to vendors of RM11,777,000 (2019: RM11,677,000).

12. CASH AND BANK BALANCES

	Group	
	2020	2019
	RM'000	RM'000
Cash and bank balances	9,359	10,399

For the purpose of statements of cash flows, cash and cash equivalents comprise the following:

	Note	Group	
		2020	2019
		RM'000	RM'000
Cash and bank balances		9,359	10,399
Bank overdraft	15	(37,701)	(42,827)
		(28,342)	(32,428)

13. ASSETS CLASSIFIED AS HELD FOR SALE

In the previous financial years, the Group entered into a business transfer agreement to dispose of the Petaling Jaya factory on 1 July 2019.

	Note	Group
		2019
		RM'000
At 1 January		72,450
Transfer from property, plant and equipment	4	427
Transfer back to right-of-use assets	5	(185)
Disposal		(72,692)
At 31 December		-

Notes to the Financial Statements

14. CAPITAL AND RESERVES

	Group and Company			
	Number of shares		Amount	
	2020	2019	2020	2019
	'000	'000	RM'000	RM'000

Issued and fully paid:

Ordinary shares

- at 1 January/31 December	234,500	234,500	267,500	267,500
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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.

Hedging reserve

Hedging reserve relates to the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have yet to occur.

15. LOANS AND BORROWINGS

	Note	Group	
		2020	2019
		RM'000	RM'000

Non-current

Loan from a related company - unsecured		100,000	-
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Current

Bank overdraft - unsecured	12	37,701	42,827
Loan from a related company - unsecured		-	114,604
Revolving credit - unsecured		220,000	100,000
		257,701	257,431

The bank overdraft and revolving credit are unsecured and repayable within the next 12 months.

Loan from a related company bears interest which ranges between 1.63% to 3.31% (2019: 3.49% to 4.31%) per annum. The non-current loan from a related company is unsecured and is repayable in 2023. The current loan from a related company in 2019 has been fully repaid in July 2020.

At 31 December 2020, the Group had available RM972,371,000 (2019: RM737,197,000) of undrawn committed borrowing facilities.

16. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current					
Trade					
Third parties	(a)	1,012,976	983,551	17	275
Amounts due to related companies	(b)	163,434	137,471	-	-
Amounts due to an associate	(b)	17,700	12,933	-	-
Designated as hedging instruments					
- Commodity futures		67	72	-	-
- Forward exchange contracts		13,155	8,600	-	-
		1,207,332	1,142,627	17	275
Non-trade					
Amounts due to related companies	(b)	9,934	617	-	-
Other payables		118,847	57,794	-	-
Accrued expenses		84,055	97,617	1,469	1,583
Provisions	(c)	60,670	22,752	-	-
		273,506	178,780	1,469	1,583
Total trade and other payables		1,480,838	1,321,407	1,486	1,858

(a) Third parties

The amount is non-interest bearing. Trade payables are normally settled on a 30 to 150 day (2019: 30 to 150 day) terms.

Included in trade payables is an amount of RM165,703,000 (2019: RM128,669,000) relating to trade payables under supplier financing arrangement.

(b) Amounts due to related companies and an associate

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

Notes to the Financial Statements

16. TRADE AND OTHER PAYABLES (CONTD.)

(c) Provisions

Included in provisions is an amount of RM14,963,000 (2019: RM14,573,000) relating to PSUP. The Group awarded PSUP to certain employees. After a three-year vesting period, participants in the plan are entitled to receive specific numbers of Nestlé S.A. shares. Vesting of the PSUP is dependent on the Group's total shareholder return, growth of earnings per share and return on invested capital. The fair value of PSUP granted is estimated at the date of grant based on historical relative performance of Nestlé S.A. share price.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, PSUP during the year:

	2020	2020	2019	2019
	Number	WAEP RM	Number	WAEP RM
Outstanding at 1 January	50,094	443.03	55,447	334.86
Granted during the year	15,740	478.32	18,357	443.03
Forfeited during the year	-	-	(950)	427.67
Exercised during the year	(18,822)	454.36	(22,760)	396.20
Outstanding at 31 December	47,012	478.32	50,094	443.03
Exerciseable at 31 December	-	-	-	-

The weighted average remaining contractual life for the PSUP outstanding as at 31 December 2020 was 1.51 years (2019: 1.55 years).

The weighted average fair value of PSUP granted during the year was RM478.32 (2019: RM443.03).

17. EMPLOYEE BENEFITS

Retirement benefits

	Group	
	2020 RM'000	2019 RM'000
Net defined benefit liability/total employee benefit liabilities	90,592	91,444

The Group operates a defined benefit scheme ("the Scheme") which is administered by Nestlé Malaysia Group Retirement Scheme ("NMGRS").

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 EPF benefits derived from employee and employer contributions made throughout the period of EPF membership integrated thereto.

17. EMPLOYEE BENEFITS (CONTD.)

Retirement benefits (contd.)

Funding

The plan is funded by NMGRS and in the event of deficit, it will be supported by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plans.

NMGRS expects to pay RM9,328,000 in contributions to defined benefit plans in 2021.

Movement in net defined benefit liability

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Group						
At 1 January	93,456	97,712	(2,012)	(2,430)	91,444	95,282
Included in profit or loss						
Interest cost	4,894	5,353	-	-	4,894	5,353
Curtailment loss	-	544	-	-	-	544
	4,894	5,897	-	-	4,894	5,897
Included in other comprehensive expense						
Remeasurement loss:						
Actuarial loss arising from:						
- experience adjustments	1,538	253	-	-	1,538	253
- financial assumptions	-	1,773	-	-	-	1,773
Return on plan assets, excluding interest income	-	-	170	991	170	991
	1,538	2,026	170	991	1,708	3,017
Others						
Benefits paid	(7,454)	(12,179)	7,454	12,179	-	-
Contributions paid by employer	-	-	(7,454)	(12,752)	(7,454)	(12,752)
At 31 December	92,434	93,456	(1,842)	(2,012)	90,592	91,444

Notes to the Financial Statements

17. EMPLOYEE BENEFITS (CONTD.)

Retirement benefits (contd.)

Plan assets

Plan assets comprise:

	Group	
	2020 RM'000	2019 RM'000
Cash and bank balances	688	451
Others	1,154	1,561
	1,842	2,012

Defined benefit obligation

Actuarial assumptions

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

	Group	
	2020	2019
Discount rate	5.50%	5.50%

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

At the reporting date, the weighted-average duration of the defined benefit obligation was 7.97 years (2019: 8.23 years).

17. EMPLOYEE BENEFITS (CONTD.)

Retirement benefits (contd.)

Sensitivity analysis

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

	Defined benefit obligation	
	Increase RM'000	Decrease RM'000
Group		
2020		
Discount rate (1.0% movement)	(6,521)	7,496
Future pension growth (0.5% movement)	462	(460)
Future mortality (1 year movement)	(2,628)	2,600
2019		
Discount rate (1.0% movement)	(6,798)	7,837
Future pension growth (0.5% movement)	466	(466)
Future mortality (1 year movement)	(2,623)	2,588

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

18. REVENUE

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue from contracts with customers:				
- Sale of goods	5,412,180	5,518,076	-	-
Other revenue:				
Dividend income:				
- Subsidiaries	-	-	544,040	661,600
- Associate	-	-	450	450
	-	-	544,490	662,050
Total revenue	5,412,180	5,518,076	544,490	662,050

Notes to the Financial Statements

19. PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Auditors' remuneration:					
- Statutory audit fees:					
- Auditors of the Group		620	488	80	174
- Non-audit fees:					
- Auditors of the Group		18	18	18	18
- Member firms of auditors		251	97	-	72
- Other auditors		50	1,753	2	7
Property, plant and equipment:	4				
- depreciation		140,464	133,506	-	-
- loss/(gain) on disposal		322	(852)	-	-
- impairment loss		5,793	9,812	-	-
- written off		1,529	5,704	-	-
Intangible assets:	6				
- amortisation		1,295	1,571	-	-
- written off		-	180	-	-
Depreciation of right-of-use assets	5	34,707	32,411	-	-

19. PROFIT BEFORE TAX (CONTD.)

The following items have been included in arriving at profit before tax: (contd.)

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Employee benefits expenses	20	607,675	574,798	-	-
Non-executive Directors' remuneration	21	1,380	1,376	1,380	1,376
Net foreign exchange loss/(gain):					
- realised		946	8,758	4	5
- unrealised		(419)	3,329	-	-
Net gain on divestment		-	(20,960)	-	-
Net (reversal of)/write-down of slow moving inventories		(2,099)	3,670	-	-
Trade receivables:					
- net reversal of impairment loss		(553)	(3,384)	-	-
- written off		1,138	683	-	-
Finance cost of lease liabilities	5	7,349	7,949	-	-
Finance cost of loan from a related company		3,018	5,892	-	-
Other finance cost		25,099	26,822	-	-
Expenses relating to short-term leases	5	35,849	42,065	-	-
Expenses relating to leases of low-value assets	5	326	427	-	-

20. EMPLOYEE BENEFITS EXPENSES

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Wages, salaries and others	533,047	503,309	-	-
Contributions to Employees Provident Fund	54,130	54,673	-	-
Expenses related to defined benefit plans	4,894	5,897	-	-
Share-based payments expense	15,604	10,919	-	-
	607,675	574,798	-	-

Included in employee benefits expenses of the Group are executive Directors' remuneration amounting to RM8,857,000 (2019: RM8,024,000) as further disclosed in Note 21.

Notes to the Financial Statements

21. DIRECTORS' REMUNERATION

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Executive:					
- Salaries and other emoluments		6,108	6,172	-	-
- Post-employment benefits		266	255	-	-
- Share-based payments		2,483	1,597	-	-
Total executive Directors' remuneration (excluding benefits-in-kind)	20	8,857	8,024	-	-
Estimated money value of benefits-in-kind		1,049	1,027	-	-
Total executive Directors' remuneration (including benefits-in-kind)		9,906	9,051	-	-
Non-executive:					
- Fees		1,240	1,240	1,240	1,240
- Other emoluments		140	136	140	136
Total non-executive Directors' remuneration	19	1,380	1,376	1,380	1,376
Total Directors' remuneration		11,286	10,427	1,380	1,376

22. INCOME TAX EXPENSE

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Statements of comprehensive income					
Malaysian income tax:					
- Current year		182,260	207,950	433	589
- (Over)/Underprovision in prior years		(5,079)	(6,113)	1	164
		177,181	201,837	434	753
Deferred tax:					
- Relating to reversal of temporary differences	9	(2,090)	(5,018)	-	-
- (Over)/Underprovision in prior years		(3,035)	5,993	-	-
		(5,125)	975	-	-
Income tax expense recognised in profit or loss		172,056	202,812	434	753

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the year.

22. INCOME TAX EXPENSE (CONTD.)

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit before tax	724,769	875,725	543,894	661,006
Taxation at Malaysian statutory tax rate of 24% (2019: 24%)	173,945	210,174	130,535	158,641
Expenses not deductible for tax purposes	7,404	5,036	949	1,255
Income not subject to tax	(1,179)	(12,278)	(131,051)	(159,307)
(Over)/Underprovision of income tax in prior years	(5,079)	(6,113)	1	164
(Over)/Underprovision of deferred tax in prior years	(3,035)	5,993	-	-
Income tax expense recognised in profit or loss	172,056	202,812	434	753

23. OTHER COMPREHENSIVE EXPENSE

	2020			2019		
	Before tax RM'000	Tax (expense)/ benefit (Note 9) RM'000	Net of tax RM'000	Before tax RM'000	Tax benefit/ (expense) (Note 9) RM'000	Net of tax RM'000
Group						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
- Gains/(Losses) arising during the year	105	(25)	80	(8,161)	1,882	(6,279)
- Reclassification adjustments for losses included in profit or loss	(3,530)	847	(2,683)	3,749	(899)	2,850
	(3,425)	822	(2,603)	(4,412)	983	(3,429)
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability						
	(1,708)	410	(1,298)	(3,017)	724	(2,293)
	(5,133)	1,232	(3,901)	(7,429)	1,707	(5,722)

Notes to the Financial Statements

24. EARNINGS PER SHARE UNIT - BASIC

The earnings per share is calculated by dividing the net profit for the financial year attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2020 RM'000	2019 RM'000
Profit net of tax attributable to owners of the parent	552,713	672,913
Weighted average number of ordinary shares in issue ('000)	234,500	234,500
	sen	sen
Earnings per share - Basic	236	287

Diluted earnings per share is not presented as there were no potential dilutive ordinary shares during the year.

25. DIVIDENDS

Dividend paid in respect of ordinary shares for the years are as follows:

	Group and Company	
	2020 RM'000	2019 RM'000
Recognised during the year		
Dividend on ordinary shares:		
- Third tax exempt interim single tier dividend of 140 sen per share on 234,500,000 ordinary shares, and paid on 21 May 2020	328,300	-
- First tax exempt interim single tier dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 8 October 2020	164,150	-
- Second tax exempt interim single tier dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 16 December 2020	164,150	-
- Final tax exempt single tier dividend of 140 sen per share on 234,500,000 ordinary shares, and paid on 30 May 2019	-	328,300
- First tax exempt interim single tier dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 10 October 2019	-	164,150
- Second tax exempt interim single tier dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 19 December 2019	-	164,150
	656,600	656,600

The Board of Directors has proposed a third tax exempt (single-tier) interim dividend after year end in respect of the year ended 31 December 2020, of 92 sen per share on 234,500,000 ordinary shares, amounting to a dividend payable of RM215,740,000. The financial statements for the current year do not reflect this proposed dividend. Such dividend will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2021.

26. OPERATING SEGMENTS

The Group has two reportable operating segments – Food and beverages and Others which include Nutrition, Nestlé Professional, Nestlé Health Science and Nespresso.

Nutrition, Nestlé Professional and Nestlé Health Science are considered as Regionally Managed Businesses (“RMB”). Nespresso is considered as Globally Managed Business (“GMB”). All these are grouped together as the Others segment.

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	
	2020	2019	2020	2019	2020	2019
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
Group						
Segment revenue and results						
Revenue	4,491,451	4,389,740	920,729	1,128,336	5,412,180	5,518,076
Operating profit	699,666	755,465	57,021	158,470	756,687	913,935
Included in the measure of segment operating profit are:						
Depreciation of property, plant and equipment	123,952	116,390	16,512	17,116	140,464	133,506

Reconciliation of reportable segment profit

	Group	
	2020	2019
	RM’000	RM’000
Segment profit	756,687	913,935
Finance costs	(35,466)	(40,663)
Finance income	3,538	3,662
Other unallocated expenses	(687)	(1,942)
Share of profit of an associate not included in reportable segments	697	733
Consolidated profit before tax	724,769	875,725

There is no disclosure of the operations as separate geographical segment as the Group operates in Malaysia.

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

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

- (i) Amortised cost ("AC"); and
- (ii) Derivatives designated as hedging instruments.

	Carrying amount RM'000	AC RM'000	Derivatives designated as hedging instruments RM'000
Group			
2020			
Financial assets			
Trade and other receivables (excluding prepayments)	474,248	465,717	8,531
Cash and bank balances	9,359	9,359	-
	483,607	475,076	8,531
Financial liabilities			
Loans and borrowings	(357,701)	(357,701)	-
Trade and other payables (excluding provisions)	(1,420,168)	(1,406,946)	(13,222)
Lease liabilities	(193,909)	(193,909)	-
	(1,971,778)	(1,958,556)	(13,222)
2019			
Financial assets			
Trade and other receivables (excluding prepayments)	518,120	511,599	6,521
Cash and bank balances	10,399	10,399	-
	528,519	521,998	6,521
Financial liabilities			
Loans and borrowings	(257,431)	(257,431)	-
Trade and other payables (excluding provisions)	(1,298,655)	(1,289,983)	(8,672)
Lease liabilities	(205,576)	(205,576)	-
	(1,761,662)	(1,752,990)	(8,672)

27. FINANCIAL INSTRUMENTS (CONTD.)

(a) Categories of financial instruments (contd.)

	Carrying amount RM'000	AC RM'000	Derivatives designated as hedging instruments RM'000
Company			
2020			
Financial assets			
Trade and other receivables	294,560	294,560	-
Financial liabilities			
Trade and other payables	(1,486)	(1,486)	-
2019			
Financial assets			
Trade and other receivables	408,111	408,111	-
Financial liabilities			
Trade and other payables	(1,858)	(1,858)	-

(b) Net gains and losses arising from financial instruments

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
- Designated upon initial recognition	(7,169)	(3,742)	-	-
Financial assets at amortised cost				
- Mandatorily required by MFRS 9	4,091	7,046	1,813	2,465
Financial liabilities at amortised cost				
	(41,901)	(41,398)	(4)	(5)
	(44,979)	(38,094)	1,809	2,460

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to the financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and market risk.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances and derivatives), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth. The Group trades only with recognised and creditworthy third parties. It's the Group's policy that all customers who wish to trade on credit term are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis with the results that the Group's exposure to bad debts is not significant.

The Group's current credit risk grading framework comprise the following categories:

Category	Definition of category	Basis for recognising ECL
I	Counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
II	Amount is more than 90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL
III	There is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.	Amount is written off

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

	Note	Category	12-month or lifetime ECL	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
Group						
2020						
Trade receivables - third parties	11	Note 1	Lifetime ECL (simplified)	175,861	(31,662)	144,199
Other receivables	11	I	12-month ECL	24,732	-	24,732
Loans to employees	11	I	12-month ECL	21,561	-	21,561
Amounts due from related companies (trade and non-trade)	11	I	12-month ECL	275,225	-	275,225
					(31,662)	
2019						
Trade receivables - third parties	11	Note 1	Lifetime ECL (simplified)	205,919	(32,215)	173,704
Other receivables	11	I	12-month ECL	35,864	-	35,864
Loans to employees	11	I	12-month ECL	26,025	-	26,025
Amounts due from related companies (trade and non-trade)	11	I	12-month ECL	276,006	-	276,006
					(32,215)	

Note 1 Trade receivables

For trade receivables, the Group has applied the simplified approach in MFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

	Note	Category	12-month or lifetime ECL	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
Company						
2020						
Amounts due from subsidiaries (non-trade)	11	I	12-month ECL	294,560	-	294,560
2019						
Amounts due from subsidiaries (non-trade)	11	I	12-month ECL	408,110	-	408,110
Other receivables	11	I	12-month ECL	1	-	1

Trade 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.

At each reporting date, the Group assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to previous year.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

Trade receivables (contd.)

Exposure to credit risk, credit quality and collateral

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

The Group receives financial guarantees given by banks, shareholders or Directors of customers in managing exposure to credit risks.

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

Trade 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 RM49,463,000 (2019: RM51,137,000).

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 60 days. The Group's debt recovery process is as follows:

- Above 30 days past due after credit term, the Group will start to initiate a structured debt recovery process which is monitored by the sales management team; and
- Above 90 days past due, the Group will commence a legal proceeding against the customer.

The Group uses an allowance matrix to measure ECLs of trade receivables from individual customers, which comprise a very large number of insignificant balances outstanding.

To measure the ECLs, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its ECLs is assessed individually by considering historical payment trends and financial strength of the trade receivable.

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

Trade receivables (contd.)

Recognition and measurement of impairment loss (contd.)

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

	Gross RM'000	ECL RM'000	Net RM'000
Group			
As at 31 December 2020			
Not past due	139,189	-	139,189
Past due 1 - 30 days	1,598	-	1,598
Past due 31 - 90 days	1,095	(782)	313
	141,882	(782)	141,100
Credit impaired			
More than 90 days past due	3,099	-	3,099
Individually impaired	30,880	(30,880)	-
Trade receivables	175,861	(31,662)	144,199
Collateralised trade receivables			
- where no loss allowance recognised	30,260	-	30,260
As at 31 December 2019			
Not past due	157,048	-	157,048
Past due 1 - 30 days	6,831	-	6,831
Past due 31 - 90 days	7,020	(293)	6,727
	170,899	(293)	170,606
Credit impaired			
More than 90 days past due	3,098	-	3,098
Individually impaired	31,922	(31,922)	-
Trade receivables	205,919	(32,215)	173,704
Collateralised trade receivables			
- where no loss allowance recognised	36,643	-	36,643

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

Trade receivables (contd.)

Recognition and measurement of impairment loss (contd.)

Trade receivables which are credit impaired amounting to RM79,000 (2019: RM19,300) are partially collateralised in the form of financial guarantee by banks. No impairment loss has been provided to the extent of the collateral value of the financial guarantee (2019: Nil).

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are supported by collateral such as bank guarantees and traded shares in managing exposure to credit risk.

The movements in the allowance for impairment in respect of trade receivables during the year are shown below.

	Trade receivables		
	Lifetime ECL RM'000	Credit impaired RM'000	Total RM'000
At 1 January 2020	293	31,922	32,215
Impairment loss reversed	-	(1,352)	(1,352)
Impairment loss recognised	489	310	799
At 31 December 2020	782	30,880	31,662
At 1 January 2019	3,959	31,640	35,599
Impairment loss reversed	(3,666)	(3,164)	(6,830)
Impairment loss recognised	-	3,446	3,446
At 31 December 2019	293	31,922	32,215

Other receivables

ECL is determined individually after considering the historical default experience and financial strength. Based on management's assessment, the probability of the default of these receivables is low and hence, the ECL is insignificant.

Cash and bank balances

The cash and bank balances are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

These banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by government agencies. Consequently, the Group is of the view that the loss allowance is not material and hence, it is not provided for.

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(a) Credit risk (contd.)

Amounts due from subsidiaries and related companies

Risk management objectives, policies and processes for managing the risk

The Company provides advances to subsidiaries and related companies. The Company monitors the results of the subsidiaries and related companies regularly.

Exposure to credit risk, credit quality and collateral

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

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

Recognition and measurement of impairment loss

Generally, the Company considers loans and advances to subsidiaries and related companies to be of low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's or a related company's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the subsidiaries' or related companies' loans and advances when they are payable, the Company considers the loans and advances to be in default when the subsidiaries or related companies are not able to pay when demanded. The Company considers a subsidiary's or a related company's advance to be credit impaired when:

- The subsidiary or related company is unlikely to repay its loan or advance to the Company in full;
- The subsidiary's or related company's loan or advance is overdue for more than 365 days; or
- The subsidiary or related company is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for these loans and advances individually using internal information available.

As at the year end, there were no indications of impairment loss in respect of amounts due from subsidiaries and related companies.

Credit terms

Credit terms of trade receivables range from 1 to 60 days (2019: 1 to 60 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Credit risk concentration profile

At the reporting date, approximately 66% (2019: 75%) of the Group's trade receivables were due from 6 (2019: 7) major customers who are reputable and located in Malaysia.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatched of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

Maturity analysis

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

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Group							
2020							
Non-derivative financial liabilities							
Bank overdraft - unsecured	37,701	2.15	37,701	37,701	-	-	-
Loan from a related company - unsecured	100,000	3.31	109,930	3,310	3,310	103,310	-
Revolving credit - unsecured	220,000	1.93 - 2.06	220,118	220,118	-	-	-
Trade and other payables, excluding derivatives and provisions	1,406,946	-	1,406,946	1,406,946	-	-	-
Lease liabilities	193,909	2.68 - 4.63	221,265	31,063	31,809	83,889	74,504
	1,958,556		1,995,960	1,699,138	35,119	187,199	74,504
Derivative financial liabilities/(assets)							
Forward exchange contracts (gross settled):							
- Outflow	4,772	-	1,010,300	1,010,300	-	-	-
- Inflow	-	-	(1,005,528)	(1,005,528)	-	-	-
Commodity futures	(81)	-	(81)	(81)	-	-	-
	4,691		4,691	4,691	-	-	-
	1,963,247		2,000,651	1,703,829	35,119	187,199	74,504

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(b) Liquidity risk (contd.)

Maturity analysis (contd.)

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

	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	More than 5 years RM'000
Group							
2019							
Non-derivative financial liabilities							
Bank overdraft - unsecured	42,827	3.40	42,827	42,827	-	-	-
Loan from a related company - unsecured	114,604	2.87 - 4.31	114,808	114,808	-	-	-
Revolving credit - unsecured	100,000	3.33	100,127	100,127	-	-	-
Trade and other payables, excluding derivatives and provisions	1,289,983	-	1,289,983	1,289,983	-	-	-
Lease liabilities	205,576	3.50 - 4.63	235,652	29,113	41,296	95,304	69,939
	<u>1,752,990</u>		<u>1,783,397</u>	<u>1,576,858</u>	<u>41,296</u>	<u>95,304</u>	<u>69,939</u>
Derivative financial liabilities/(assets)							
Forward exchange contracts (gross settled):							
- Outflow	2,630	-	1,140,603	1,140,603	-	-	-
- Inflow	-	-	(1,137,973)	(1,137,973)	-	-	-
Commodity futures	(479)	-	(479)	(479)	-	-	-
	<u>2,151</u>		<u>2,151</u>	<u>2,151</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,755,141</u>		<u>1,785,548</u>	<u>1,579,009</u>	<u>41,296</u>	<u>95,304</u>	<u>69,939</u>

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(b) Liquidity risk (contd.)

Maturity analysis (contd.)

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

	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	More than 5 years RM'000
Company							
2020							
Non-derivative financial liabilities							
Trade and other payables	(1,486)	-	(1,486)	(1,486)	-	-	-
2019							
Non-derivative financial liabilities							
Trade and other payables	(1,858)	-	(1,858)	(1,858)	-	-	-

(c) Market risk

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

(i) Foreign currency risk

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

Risk management objectives, policies and processes for managing the risk

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

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

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Market risk (contd.)

(i) Foreign currency risk (contd.)

Exposure to foreign currency risk

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

	Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000
Group			
2020			
Trade receivables	225	-	-
Trade payables	(86,827)	(537)	(17,471)
Intra-group receivables	154,287	943	22
Intra-group payables	(63,503)	(13,960)	(8,250)
Commodity futures	(21)	-	-
Exposure in the statements of financial position	4,161	(13,554)	(25,699)
Net contracted foreign exchange contracts	317,207	42,508	39,506
Net exposure	321,368	28,954	13,807
2019			
Trade receivables	986	-	-
Trade payables	(112,777)	(1,127)	(22,809)
Intra-group receivables	152,137	-	-
Intra-group payables	(58,902)	(7,363)	(1,014)
Loan from a related company - unsecured	(114,604)	-	-
Commodity futures	8	-	-
Exposure in the statements of financial position	(133,152)	(8,490)	(23,823)
Net contracted foreign exchange contracts	417,355	43,414	57,499
Net exposure	284,203	34,924	33,676

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Market risk (contd.)

(i) Foreign currency risk (contd.)

Currency risk sensitivity analysis

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD, GBP and EUR exchange rates against the functional currency of the Group entities, with all other variables held constant.

		2020	2019
		RM'000	RM'000
USD/RM	- strengthened 10% (2019:10%)	(32,137)	(28,420)
	- weakened 10% (2019:10%)	32,137	28,420
GBP/RM	- strengthened 10% (2019:10%)	(2,895)	(3,492)
	- weakened 10% (2019:10%)	2,895	3,492
EUR/RM	- strengthened 10% (2019:10%)	(1,381)	(3,368)
	- weakened 10% (2019:10%)	1,381	3,368

(ii) Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group uses the expertise of Nestlé Treasury Centre ("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.

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Market risk (contd.)

(ii) Interest rate risk (contd.)

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 are as follows:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Fixed rate instrument				
Financial liabilities	(193,909)	(205,576)	-	-
Floating rate instruments				
Financial assets	85,323	86,129	78,820	74,810
Financial liabilities	(357,701)	(257,431)	-	-
	(272,378)	(171,302)	78,820	74,810

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for floating rate instruments

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) profit or loss before tax of the Group and the Company by RM2,724,000 (2019: RM1,713,000) and RM788,000 (2019: RM748,000) respectively on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Market risk (contd.)

(iii) Commodity price risk

Commodity price risk arises from transactions in relation to commodity markets for the supplies of milk skimmed powder ("MSK"), coffee, cocoa, palm oil, sugar and energy for the manufacture of the Group's products.

Risk management objectives, policies and processes for managing the risk

The Group's objective is to minimise the impact of commodity price fluctuations. The commodity price risk exposure of future purchases are managed using a combination of derivatives (mainly futures and options) and executory contracts.

Based on the global procurement hub arrangement, Nestrade branch was set up in Malaysia to support the procurement activities of Zone Asia, Oceania and Africa ("AOA"). Nestrade transacts commodity contracts on behalf of the Group in order to obtain better leverage. Following the guidelines set out by the holding company, all commodity contracts are for hedging purposes to protect the Group from price fluctuations.

(d) Hedging activities

(i) Currency risk – Transactions in foreign currency

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Group. The functional currencies of Group companies are RM. The currencies in which these transactions primarily denominated are USD, GBP and EUR.

The Group's risk management policy is to hedge at least 70% of its estimated foreign currency exposure in respect of forecast sales and purchases over the following 12 months at any point in time. The Group purchases forward foreign exchange contracts to hedge foreign transactions. The Group designates the spot element of forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. Most of these contracts have a maturity of less than one year from the reporting date. The Group determines critical terms of the forward exchange contracts to align with the hedged item.

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(d) Hedging activities (contd.)

(i) Currency risk – Transactions in foreign currency (contd.)

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

(ii) Fair value hedge

In prior year, the Group used fair value hedges to mitigate foreign currency risks of the loan denominated in USD from Nestlé Treasury Center ("NTC") – Middle East & Africa. The forward exchange contract has nominal value of RM114,604,000. The forward exchange contracts was entered into within a year and settled according to the individual contracts settlement date.

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

	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
Group			
2019			
Forward exchange contracts	(874)	(874)	(874)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(d) Hedging activities (contd.)

(iii) Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The forward exchange contracts and commodity futures have nominal value of RM1,007,130,000 (2019: RM1,028,594,000) and RM14,146,000 (2019: RM6,788,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

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

	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
Group			
2020			
Forward exchange contracts	(4,772)	(4,772)	(4,772)
Commodity futures	81	81	81
	(4,691)	(4,691)	(4,691)
2019			
Forward exchange contracts	(2,630)	(2,630)	(2,630)
Commodity futures	479	479	479
	(2,151)	(2,151)	(2,151)

During the year, a gain of RM80,000 (2019: a loss of RM6,279,000) net of tax was recognised in the other comprehensive income and a loss of RM2,683,000 (2019: a gain of RM2,850,000) net of tax was reclassified from equity to profit or loss. There is no ineffective gain/loss recognised in profit or loss during the year in respect of the hedge (2019: Nil).

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(e) Fair values

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

The table below analyses financial instruments carried at fair value.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Group										
2020										
Financial assets										
Commodity futures	148	-	-	148	-	-	-	-	148	148
Forward exchange contracts	-	8,383	-	8,383	-	-	-	-	8,383	8,383
Loans to employees	-	-	-	-	-	-	21,561	21,561	21,561	21,561
	148	8,383	-	8,531	-	-	21,561	21,561	30,092	30,092
Financial liabilities										
Commodity futures	(67)	-	-	(67)	-	-	-	-	(67)	(67)
Forward exchange contracts	-	(13,155)	-	(13,155)	-	-	-	-	(13,155)	(13,155)
	(67)	(13,155)	-	(13,222)	-	-	-	-	(13,222)	(13,222)
2019										
Financial assets										
Commodity futures	551	-	-	551	-	-	-	-	551	551
Forward exchange contracts	-	5,970	-	5,970	-	-	-	-	5,970	5,970
Loans to employees	-	-	-	-	-	-	26,025	26,025	26,025	26,025
	551	5,970	-	6,521	-	-	26,025	26,025	32,546	32,546
Financial liabilities										
Commodity futures	(72)	-	-	(72)	-	-	-	-	(72)	(72)
Forward exchange contracts	-	(8,600)	-	(8,600)	-	-	-	-	(8,600)	(8,600)
	(72)	(8,600)	-	(8,672)	-	-	-	-	(8,672)	(8,672)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(e) Fair values (contd.)

Policy on transfer between levels

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

Level 2 fair value

Derivatives

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

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the year (2019: no transfer in either directions).

Level 3 fair value

Non-derivative financial liabilities

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

(f) Master netting or similar agreements

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

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

Notes to the Financial Statements

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(f) Master netting or similar agreements (contd.)

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

	Note	Carrying amounts of financial instruments in the statement of financial position RM'000	Related financial instruments that are not offset RM'000	Net amount RM'000
Group				
2020				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	11	8,383	(4,102)	4,281
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	16	(13,155)	4,102	(9,053)
2019				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	11	5,970	(4,843)	1,127
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	16	(8,600)	4,843	(3,757)

29. 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 was no change to the Group's approach to capital management during the year.

30. CAPITAL COMMITMENTS

Capital expenditures not provided for in the financial statements are as follows:

	Group	
	2020	2019
	RM'000	RM'000
Plant and equipment:		
Approved and contracted for	14,901	2,298

31. CONTINGENCIES

The Directors are of the opinion that provision is not required in respect of this matter, as it is not probable that a future outflow of economic benefits will be required or the amount is not capable of reliable measurement.

Litigation

Nestlé Products Sdn. Bhd. ("NPSB"), the wholly owned subsidiary of Nestlé (Malaysia) Berhad ("the Company") was served with a sealed Writ of Summons and Statement of Claim dated 6 March 2019, filed by Mad Labs Sdn. Bhd. ("Mad Labs"). The claim by Mad Labs against NPSB is for amongst others, the sum of RM139,344,262.25. An amended Writ of Summons dated 21 March 2019 was further filed by Mad Labs and served subsequently on 25 March 2019.

In the Statement of Claim, Mad Labs is alleging inter alia, the unauthorised and/or unlawful use of Mad Lab's QR Code, breach of an implied contract between Mad Labs and NPSB by reason of NPSB's continued use of the QR Code, unjust enrichment of NPSB by the use of the QR Code, compensation for the services which Mad Labs has rendered to NPSB and NPSB's negligence in using Mad Labs's QR Code on its products/packaging. NPSB has filed and served its Statement of Defence dated 22 April 2019 to dispute the claims made by Mad Labs. In addition to filing the Statement of Defence, NPSB has separately filed an action at the Intellectual Property Court ("IP Court") against Mad Labs and its sole Director and shareholder, Chow Kien Loon ("CKL") for amongst others, to challenge the ownership of Mad Labs in the QR Code, negligence, unlawful interference with trade as well as defamation and trade libel. Mad Labs and CKL have been served the sealed Writ of Summons and Statement of Claim dated 23 April 2019 filed by NPSB through its solicitors.

On 9 December 2019, the Court has allowed the consolidation and transfer of Mad Labs' claim to the IP Court to be heard together with NPSB's claim. The IP Court has recently heard and disposed of an interlocutory striking out application filed by Mad Labs and CKL to remove CKL as a named defendant in the counter suit filed by NPSB against Mad Labs and CKL. On 21 October 2020, Mad Labs and CKL have filed a Notice of Appeal against the IP Court's dismissal of CKL's striking out application. The Court of Appeal has since on 20 January 2021 fixed the hearing date for the appeal to take place on 22 September 2021. Parties are to complete the filing of written submissions by 7 September 2021 before the appeal hearing.

Despite the Record of Appeal filed by Mad Labs and CKL, the pre-trial directions given by the IP Court remain valid and parties are required to complete the filing of trial documents as directed. Trial dates have been fixed to tentatively commence from 1 June 2021 till 4 June 2021.

Based on the opinion rendered by solicitors representing NPSB, Messrs. Zaid Ibrahim & Co., NPSB has a reasonably strong case against Mad Labs and CKL. Accordingly, the Board is of the opinion that no provision needs to be made for this claim.

Notes to the Financial Statements

32. 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 or jointly 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 parties are subject to common control. Related parties may be individuals or other entities.

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

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

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. Other than as disclosed elsewhere in the financial statements, the significant related party transactions of the Group and of the Company are shown below. The balances related to the below transactions are shown in Notes 11 and 16.

	Note	Group		Company	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Related companies					
Sales of goods	(a)	(982,796)	(975,074)	-	-
Purchases of goods and services	(a)	1,021,826	980,541	-	-
Royalties		267,412	270,797	-	-
IT shared services		50,311	39,099	-	-
Management fees		(38,216)	(35,705)	-	-

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

32. RELATED PARTIES (CONTD.)

Compensation of key management personnel

The remuneration of executive Directors and other key management personnel during the year were as follows:

	Group	
	2020 RM'000	2019 RM'000
Salaries and other emoluments	16,176	14,684
Post-employment benefits	982	845
Share-based payments	4,671	3,520
Estimated monetary value of benefits-in-kind	1,807	1,701
	23,636	20,750

33. SIGNIFICANT EVENT

Outbreak of Coronavirus ("Covid-19")

In March 2020, the World Health Organisation has officially announced the outbreak of Covid-19 as a global pandemic. In order to combat the spread of Covid-19, the government of Malaysia had declared a Movement Control Order ("MCO") which encompasses restriction of movement and closure of premises, except for those involved in essential services. During this period, the Group has been granted approval by the Malaysian Government to continue its operations as the Group is in the essential industry to ensure the continuous food supply.

Financial performance for Nestlé Professional (which serves the Out-of-Home channels) and Ready-to-Drink business units have been impacted mainly attributed to severe operational restrictions on HORECA (Hotel, Restaurant & Café) channels during the MCO, as well as to the decline in mobility of the public impacting sales in restaurants, R&R rest stops, and office-related channels.

In comparison, there is an improvement for in-home consumption channels which helped to cushion the impact from the HORECA channels during MCO.

During this Covid-19 period, the Group has a series of preventive measurements in place to ensure the safety of employees. The Group is actively monitoring and managing its operations to minimise any potential business risk.

Shareholdings Statistics

as at 26 February 2021

Authorised Capital	:	RM300,000,000
Issued and paid-up share capital	:	RM267,500,000
Class of shares	:	Ordinary shares of RM1.00 each
No. of shareholders	:	7,023
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Société des Produits Nestlé S.A.	170,276,563	72.613
Citigroup Nominees (Tempatan) Sdn Bhd		
Employees Provident Fund Board	18,770,500	8.004

30 Largest Shareholders

Name	Number of shares held	%
1 SOCIÉTÉ DES PRODUITS NESTLÉ S.A.	170,276,563	72.613
2 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	18,770,500	8.004
3 CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	2,668,400	1.138
4 KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	2,659,750	1.134
5 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	1,924,810	0.821
6 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	1,245,600	0.531
7 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	1,014,300	0.433
8 PERTUBUHAN KESELAMATAN SOSIAL	912,300	0.389
9 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	839,757	0.358
10 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	835,470	0.356

Name	Number of shares held	%
11 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	812,400	0.346
12 MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	790,000	0.337
13 CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	738,400	0.315
14 CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	585,000	0.249
15 DB (MALAYSIA) NOMINEE (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	462,300	0.197
16 KWANG TEOW SANG SDN BHD	430,700	0.184
17 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	397,200	0.169
18 HSBC NOMINEES (ASING) SDN BHD J.P. MORGAN SECURITIES PLC	383,208	0.163
19 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. INVESTMENT FUNDS FOR EMPLOYEE BENEFIT TRUSTS	379,100	0.162
20 BATU PAHAT SENG HUAT SDN BERHAD	363,985	0.155
21 AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	324,900	0.139
22 DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND WTGL FOR WISDOMTREE EMERGING MARKETS EX-STATE-OWNED ENTERPRISES FUND	278,200	0.119
23 KUOK FOUNDATION BERHAD	274,200	0.117
24 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR MSCI EQUITY INDEX FUND B - MALAYSIA	268,800	0.115
25 CARTABAN NOMINEES (TEMPATAN) SDN BHD PBTB FOR TAKAFULINK DANA EKUITI	261,000	0.111

Shareholdings Statistics

as at 26 February 2021

Name	Number of shares held	%
26 HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (INSEA)	260,800	0.111
27 MAYBANK NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR PRINCIPAL DALI EQUITY GROWTH FUND (UT-CIMB-DALI) (419455)	254,300	0.108
28 CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED (A/C 1125250001)	252,585	0.108
29 JARRNAZZ SDN. BHD.	248,000	0.106
30 HSBC NOMINEES (ASING) SDN BHD TNTC FOR QSUPER	238,800	0.102

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 - 99	1,055	15.022	7,077	0.003
100 - 1,000	4,295	61.156	1,916,033	0.817
1,001 - 10,000	1,215	17.300	4,296,221	1.832
10,001 - 100,000	382	5.439	12,087,354	5.155
100,00 - less than 5% of issued shares	74	1.054	27,146,252	11.576
5% and above of issued shares	2	0.029	189,047,063	80.617
Total	7,023	100.000	234,500,000	100.000

DIRECTORS' SHAREHOLDINGS

	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
Nestlé S.A., the ultimate holding company				
Juan Jose Aranols Campillo	12,230	0.00042	-	-
Craig Grant Connolly	1,826	0.00006	-	-

List of Properties Held

At 31 December 2020

Location	Tenure	Age*	Expiry Date	Size (m ²)	Description	Net Book Value RM'000
1. PT 927, Jalan Playar 15/1, Seksyen 15, 40200 Shah Alam, Selangor	Leasehold	11 - 50**	10.06.2070	113,396	Factory	39,084
2. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	51	29.01.2070	36,835	Factory & warehouse	10,364
3. Lot Nos. 687 - 696, 3863 - 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	24 - 29	15.11.2048 27.06.2049 13.08.2055 20.11.2095	136,199	Factory	2,504
4. Lot Nos. 3857 - 3862 & 4672 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	24 - 29	27.06.2049 20.11.2095	33,870	Factory	1,192
5. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	29	19.10.2053	25,460	Factory	276
6. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	26	12.10.2054	12,740	Factory	532
7. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	7	26.06.2049	4,249	Vacant land	260

* Approximation of age of property in years.

** Amalgamation of Shah Alam Complex, Batu Tiga & Sri Muda land in 2015.

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NESTLÉ (MALAYSIA) BERHAD

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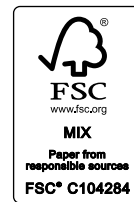
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