



Nestlé® Good food, Good life

CORPORATE GOVERNANCE & FINANCIAL REPORT 2022





Unlocking the power of food  
to enhance quality of life for everyone,  
today and for generations to come.

# Inside This Report

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## Basis of This Report

The Nestlé Corporate Governance & Financial Report 2022 (this Report) assesses our governance practices and reports on our financial performance for the financial year ended 31 December 2022. 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 at [www.nestle.com.my](http://www.nestle.com.my). Save as disclosed in our Corporate Governance Report, Nestlé (Malaysia) Berhad (Nestlé Malaysia/ Company) has complied with the main principles of the Malaysian Code on Corporate Governance 2021.

### DEVELOPING CONTENT

This Report was prepared based on local and global standards, including the:

- Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements)
- Malaysian Code on Corporate Governance 2021 (MCCG)
- Corporate Governance Guide by Bursa Malaysia Berhad (4<sup>th</sup> Edition)
- Companies Act 2016
- International Financial Reporting Standards (IFRS)
- Malaysian Financial Reporting Standards (MFRS)
- Global Reporting Initiative (GRI) Standard

### ANNUAL REPORT & ANNUAL GENERAL MEETING

Issuance of Annual Report and Notice of 39<sup>th</sup> Annual General Meeting : **24 March 2023**

39<sup>th</sup> Annual General Meeting : **26 April 2023**

### ICONS IN THIS REPORT

**AR** Annual Review 2022

**CGFR** Corporate Governance & Financial Report 2022

**NIS** Nestlé in Society Report 2022

→| Directs the readers to pages or other supplementary documents that contain more information

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## 2 Corporate Governance Overview Statement

### IN DISCUSSION WITH THE CHAIRMAN



**Good governance is central to making good decisions. It helps promote the long-term, sustainable success of the business, and ensures we consider the views and interests of the Group's wider stakeholders.**

### Dear Shareholders,

On behalf of the Board, it is my pleasure to present the Corporate Governance Overview Statement (CGOS) for the year ended 31 December 2022, which provides insights into the Board's and its Committees' activities this year.

#### GOVERNANCE, CULTURE AND GOALS

I am pleased to confirm that Nestlé Malaysia has applied the principles of MCCG and its applications, which can be found in our Corporate Governance Report. We continue to focus on the key themes of sustainability, diversity, engagement with our stakeholders, fair remuneration structures and the strengthening of our corporate culture. This CGOS gives an insight into how we maintain and monitor our robust processes to ensure that good governance and behaviours are at the heart of everything that we do.

Our purpose, 'to unlock the power of food to enhance quality of life for everyone, today and for generations to come', continues to guide us in making informed decisions at every level of the Group with special focus on Environment, Social and Governance (ESG) aspects and contributing to the United Nations Sustainable Development Goals (SDGs). Nestlé Malaysia has a strong and established culture, which is supported by solid values and principles, and shapes the way we work. Our resilience and performance following the pandemic reflect a business model where our people continue to act in line with high standards of ethical behaviour focused on 'doing the right thing' in pursuit of business objectives. The Board takes its role of setting and monitoring culture, values and ethics seriously, led in our operations by the Chief Executive Officer (CEO), supported by our Executive Leadership Team and the senior management team.

We continue to ensure good governance is present across all levels and areas of Nestlé Malaysia, and its subsidiaries (the Group). There are reliable and structured Group-wide systems in place to monitor all aspects of governance. The Board and its Committees regularly review information about compliance culture, assessing and managing risks, and having an overview of any disclosures made by the workforce or other stakeholders either directly or through our independently operated whistleblowing channel.



# Corporate Governance Overview Statement In Discussion with the Chairman

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## SUSTAINABILITY

We continued to accelerate our sustainability efforts in 2022 and have taken decisions to further develop the governance structure that supports and helps us to succeed in delivering these efforts. In support of the sustainability reporting of the Task Force on Climate-Related Financial Disclosures (TCFD) in Malaysia, our sustainability team has begun implementation of the enhanced climate-related disclosures in phases, well ahead of the stipulated timeline.

The Board's roles and responsibilities in our Board Charter and Board Agenda have been updated to include the Board's oversight of ESG related matters. Our enterprise risk management framework considers climate related risks and impacts for the Board's quarterly review and discussions, and our Creating Shared Value (CSV) Council ensures that the Board receives regular updates on the Group's ESG initiatives. We have also strengthened the knowledge of our Board on ESG to fulfill their enhanced role in ESG monitoring and oversight.

Nestlé Malaysia's Net Zero Roadmap establishes our approach towards contributing to, and achieving Nestlé S.A.'s target to halve global greenhouse gas (GHG) emissions by 2030, based on a baseline established in 2018, to achieve net zero emissions by 2050. The Board is also committed in supporting Nestlé Malaysia's Net Zero Roadmap strategy, overseeing its implementation and keeping track of its progress.

## DIVERSITY, EQUITY AND INCLUSION

The Board spends considerable time in assessing the Company's performance, plans and whether any proposed action aligns with the strategy and future direction of the business, taking into consideration sustainability and the impact on our stakeholders. The Board reviews and deliberates on the specific business strategies in line with its purpose and ensures that the Company has a structured framework to manage risks and adequate internal controls for the effective and successful implementation of the strategies.

Our employees are at the heart of being a 'force for good' that enables us to succeed as a diverse and highly effective team. We continuously work hard to create a healthy, positive and ethical working environment post the COVID-19 pandemic in order to attract and retain the right talent to support the growth of the business. This includes meeting the demand for increased flexibility, a more inclusive organisational culture and opportunities for talent development as these demands are specially critical to our current generation of employees.

In line with our commitment to diversity, equity and inclusion, we are proud to have three highly qualified female Directors who represent 43% of the Board's composition. The Governance, Nomination and Compensation Committee continues to review the composition of the Board and when evaluating potential additions to the Board, the selection criteria emphasises not only the candidate's diverse background, but also each expertise, experience, corporate industry standing and skills that can bring added value to the already experienced and well-rounded Board.

## OUR STAKEHOLDERS

Central to enabling our ambitions is understanding the views of our stakeholders by regular and meaningful engagements at all levels of the Group. These views provide guidance to our decision making to ensure the future success of our business. Details about who we have identified as our key stakeholders, our interactions during 2022 and the impact they have on our approach can be found on [pages 10 to 12](#). In an environment of continued uncertainty, I am proud of the engagement of our people and their determination and commitment to drive progress for the sustainable growth of Nestlé Malaysia.

## BOARD ACTIVITIES AND EFFECTIVENESS

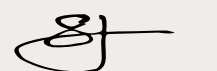
Continuing the theme of Board effectiveness in accordance with the requirements under the MCGG this year, our Company Secretary led the annual evaluation of the Board, its Committees and Directors, assisted by internally facilitated questionnaires and further strengthened by the evaluation carried out by an external consultant who interviewed the members of the Board and some of our senior management. All Directors were of the opinion that the Board and its Committees are effective in carrying out their roles and responsibilities. There is a shared view amongst the Directors that the Board operates effectively, has the right composition, and is efficient. The evaluation had the additional measure of our recently adopted Directors' Fit and Proper Policy, which ensures that all members of the Board have the necessary qualities, competencies, experience and commitment to deliver effective and efficient oversight responsibilities.

Details of the Board evaluation and its outcomes can be found on [page 21](#).

## DIVIDEND

The Board is mindful of the importance of returns to shareholders and it has declared a third interim dividend per share for the financial year ended 31 December 2022, which brings the total dividend for the year to RM2.62 per share (2021: RM2.42 per share. The third interim dividend of RM1.22 per share will be paid on 17 May 2023 to shareholders whose names appear on the Record of Depositors on 19 April 2023.

The higher total dividend declared demonstrates the Company's commitment to deliver value to shareholders, which could only be possible with the Company's solid growth and resilient performance.



**YAM TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL**  
*Chairman*



4 Corporate Governance Overview Statement

OUR BOARD AT A GLANCE

- AC Audit Committee
- GNCC Governance, Nomination and Compensation Committee

100%  
MEETING ATTENDANCE RATE

MEETING ATTENDANCE 2022

	Board	AC	GNCC
<b>YAM Tan Sri Dato' Seri Syed Anwar Jamalullail</b> <i>Chairman, Non-Independent Non-Executive Director</i>	5/5	4/4	3/3
<b>Mr. Chin Kwai Fatt</b> <i>Independent Non-Executive Director</i>	5/5	4/4	-
<b>Dato' Hamidah Naziadin</b> <i>Independent Non-Executive Director</i>	5/5	-	3/3
<b>Datin Sri Azlin Arshad</b> <i>Independent Non-Executive Director</i>	5/5	4/4	-
<b>YM Dr. Tunku Alina Raja Muhd. Alias</b> <i>Independent Non-Executive Director</i>	5/5	-	3/3
<b>Juan Aranols</b> <i>Executive Director</i>	5/5	-	-
<b>Syed Saiful Islam</b> <i>Executive Director</i> <i>(Appointed on 1 August 2022)</i>	1/1	-	-
<b>Craig Connolly</b> <i>Executive Director</i> <i>(Resigned on 1 August 2022)</i>	4/4	-	-

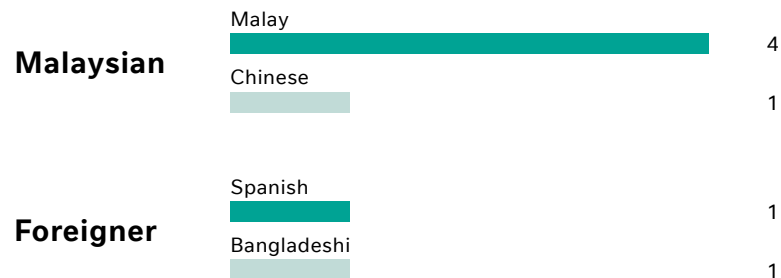
OVERVIEW OF THE BOARD OF DIRECTORS



GENDER DIVERSITY



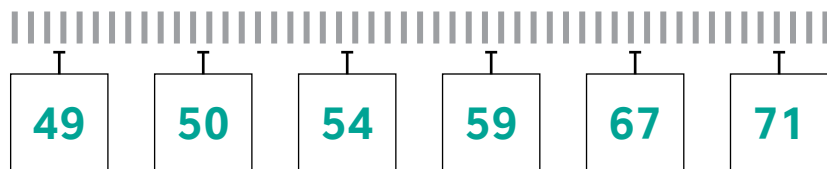
DIVERSITY OF NATIONALITY & ETHNICITY



DIVERSITY OF TENURE



## DIVERSITY OF AGE



## SKILLS AND EXPERIENCES OF THE DIRECTORS

- |   |                                 |    |                         |
|---|---------------------------------|----|-------------------------|
| 1 | Business Operations             | 10 | Human Resource          |
| 2 | Climate Change Governance       | 11 | Industrial Relations    |
| 3 | Communication and Multimedia    | 12 | Investment Banking      |
| 4 | Corporate Social Responsibility | 13 | Investor Relations      |
| 5 | Digital                         | 14 | Law                     |
| 6 | Finance                         | 15 | Risk Management         |
| 7 | Global Experience               | 16 | Sales & Marketing       |
| 8 | Corporate Governance            | 17 | Strategy                |
| 9 | Government Liaison              | 18 | Sustainable Development |

## 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**  
Responsible for protecting the interests of minority shareholders and other stakeholders.

**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 Group’s policies and procedures, and compliance with relevant regulatory requirements.

## MATTERS RESERVED FOR THE BOARD

- |   |  |   |   |
|---|--|---|---|
| Review, approve and adopt the Company’s strategic plans and annual budgets.                                 | Declaration of dividends, approval of financial statements, accounts and quarterly reports of the Company. | Acquisition, divestment or closure of business. | Establishment of new substantial businesses.  |
| Significant capital investment and disposal of material assets from the existing business to a third party. | Increase or reduction of the Company’s subsidiary(ies)’s issued capital.                                   | Selected corporate restructuring exercise.      | The change of name of any company within the Group and establishment of any new subsidiary company. |



## Corporate Governance Overview Statement

### AN ECOSYSTEM OF ACCOUNTABILITY AND INTEGRITY

#### COMPLIANCE FRAMEWORK STRUCTURE

The compliance framework structure is helmed by the Compliance Steering Committee, chaired by the CEO, and consists of a few members of the Executive Leadership Team including the Market Compliance Officer, and the Legal & Compliance Counsel. The Compliance Steering Committee sets the Group's strategy and direction for compliance and provides guidance and support towards the successful execution of an effective Compliance Programme.

Each year, the Compliance Programme is formulated to cover the execution of internal policies, procedures and agenda to ensure compliance with applicable laws, rules and regulations. Further, it includes an 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 Compliance Programme is then reported to the Compliance Steering Committee.

In 2022, to ensure that it is equipped with the defence of adequate procedures under section 17A of the Malaysian Anti-Corruption Commission Act 2009 (MACC Act), the Group's main focus continues to be the strengthening of its internal processes and creating awareness amongst its employees.

For the financial year ended 31 December 2022, the Compliance Steering Committee convened four meetings.

#### NESTLÉ CORPORATE BUSINESS PRINCIPLES (NCBP)

For Nestlé to be successful, we must earn the trust of our employees, consumers, customers, suppliers, shareholders and the wider society. This will be dependent on us acting with integrity at all times and upholding our commitments. The NCBP provides a strong ethical framework, ensuring integrity of action and compliance with laws, regulations and our own commitments.

The NCBP prescribes certain values and principles which Nestlé has committed worldwide. The principles focus 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.

#### NESTLÉ CODE OF BUSINESS CONDUCT (NCBC)

The NCBC implements the NCBP by establishing certain non-negotiable minimum standards of behaviour in key areas. It provides a reference for employees, associates, officers and Directors when they seek guidance on the proper course of action in a given situation. The three basic guiding principles are:

- (a) avoid any conduct that could damage or create risk to the Group or its reputation;
- (b) act legally and honestly; and
- (c) put the Group's interests ahead of personal or other interests.

The NCBC comprises of 14 sections:

- |   |  |
|---|--|
| 1. Compliance with laws, rules and regulations        | 8. Confidential information                        |
| 2. Conflicts of Interest                              | 9. Fraud, protection of company assets, accounting |
| 3. Outside directorships and other outside activities | 10. Bribery and corruption                         |
| 4. Families and Relatives                             | 11. Gifts, meals, entertainment                    |
| 5. Corporate opportunities                            | 12. Discrimination and harassment                  |
| 6. Insider trading                                    | 13. Failure to comply                              |
| 7. Antitrust and fair dealing                         | 14. Reporting illegal or non-compliant conduct     |





## Corporate Governance Overview Statement An Ecosystem of Accountability and Integrity

### NESTLÉ MALAYSIA ANTI-CORRUPTION, GIFTS & ENTERTAINMENT GUIDELINES (ANTI-CORRUPTION GUIDELINES)

Nestlé condemns any and all forms of bribery and corruption.

With a zero-tolerance approach towards corruption, the Anti-Corruption Guidelines was launched to guide the employees and the Directors on, amongst others, situations of gifts, entertainment, dealings with government officials, conflicts of interest and facilitation payments. The Anti-Corruption Guidelines resonates Nestlé's global stance against bribery and corruption.

In 2020, an amendment in the form of a new section 17A to the MACC Act introduced corporate liability for bribery and corruption. In order to equip itself with the defence of adequate procedures against corporate liability, the Group strengthened its internal processes including procurement practices, control measures, risk assessment, systematic review, monitoring, communications and training. The Group continues to strengthen its practices this year with a review and update of the Anti-Corruption Guidelines and its approval processes. On 9 December 2022, in conjunction with the International Anti-Corruption Day, the Group launched the newly updated Anti-Corruption Guidelines. Following this, a strong tone-from-the-top message was communicated by the Nestlé Leadership Team to remind all employees about the Group's commitment towards ethics, integrity and honesty. This was accompanied with awareness creation activities to commemorate the International Anti-Corruption Day.

The Group continues to create awareness on its stand against corruption through regular communications to its employees, Directors and also to its customers and service providers.

### SANCTIONS

The Company lawfully engages in business activities in jurisdictions where sanctions laws from countries such as Switzerland, the European Union, the United States of America, the United Kingdom and the United Nations apply. Consistent with its approach to comply with all applicable laws as laid out in the NCBP, the Sanctions Compliance Standard requires that the Group applies a risk-based approach when dealing with such jurisdictions. In 2022, the Company conducted an assessment to determine risk relating to sanctions and rolled out e-Learning on sanctions to employees who may deal with sanctioned countries. Additionally, the Nestlé US Sanctions Recusal Standard requires that persons from the US must recuse themselves from any discussion of, the decision on or facilitation of activities which may apply.

### BUSINESS ETHICS & FRAUD COMMITTEE (BEFC)

The BEFC reviews all complaints and/or allegations of non-compliance lodged by employees or third parties through various avenues reporting, including via the Group's whistleblowing channel, Speak Up. Following the review, it ensures an investigation on the complaint is effectively conducted and that appropriate action is taken based on the nature of the violation. The BEFC ensures that procedures are in place, implemented and followed for the investigation and management of compliance complaints.

The BEFC is chaired by the CEO and consists of the Chief Financial Officer (CFO), the Executive Director Legal & Secretarial (as the Market Compliance Officer) and the Executive Director Group Human Resource. All reports and updates from the BEFC are reviewed by the Audit Committee prior to the review by the Board.

### COMPETITION LAW AND ANTITRUST POLICY

In 2022, the Group has completed the roll-out of the Nestlé Global Antitrust e-Learning to targeted employees across different functions.

The Nestlé Global Antitrust e-Learning has been designed specifically to create a personalised learning journey for each employee and its main objective is to help the employees better understand the basic rules of competition laws applicable to their role and at the same time, ensure compliance when executing their day-to-day roles.

In addition to the Nestlé Global Antitrust e-Learning module, the Group has also implemented a new Unannounced Government Visit (UGV) Policy, which replaces the previous Dawn Raid Policy. This updated policy not only applies to unannounced visits from the Malaysian Competition Commission but also encompasses unannounced visits from other government agencies and authorities.

Trainings have been given to key stakeholders on the new policy and through its Legal & Compliance department, a mock exercise has also been conducted involving certain key business units and supporting functions to simulate an actual UGV event. The objective of the mock exercise is to gauge the readiness of some of the stakeholders in the event of an actual UGV.

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.

### PERSONAL DATA PROTECTION

Nestlé values the privacy of every individual's personal data and is committed to meet all obligations set out under the Personal Data Protection Act 2010 (PDPA).

Digital data has enormous value and can bring huge benefits to individuals, societies and to companies like Nestlé. But if data is not handled ethically and with care, it can lead to profound disruption and interference in people's lives. In Nestlé Malaysia, we comply to the Nestlé S.A. Group's privacy program and initiatives.

We value and protect the personal data of everyone who interacts with our Group. We want to be transparent about the types of data we collect and the purposes for which we process it. Alongside the Nestlé Privacy Policy and Nestlé Privacy Standard, the Nestlé Malaysia Personal Data Guidelines offers guidance to the Group on the handling and use of personal data in Nestlé.

As a continuous effort, the Group engages and continues to create awareness and training on good data privacy and security practices within the relevant business and functions units that process personal data. The Group also provides training to service providers who handle personal data on the Group's behalf, including to instill in them the importance of good data security practices. 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 NCBP.



## Corporate Governance Overview Statement An Ecosystem of Accountability and Integrity

### NESTLÉ MALAYSIA CHARTER: INFANT FORMULA POLICY

The Group's responsible conduct through appropriate marketing and distribution practices is supported by a robust framework that ensures all our operations abide by international and local regulations. Nestlé Malaysia is fully committed towards complying with the necessary requirements as implemented by the authorities and with all other relevant applicable laws.

To effectively monitor the implementation of our framework and ensure full compliance, we abide by Nestlé's global management system. The system provides an avenue for internal and external stakeholders to raise relevant concerns about marketing practices or report non-compliance of the International Code of Marketing of Breast-milk of Substitutes and Malaysia's Code of Ethics for the Marketing of Infant Foods and Related Products (collectively, WHO Code) through our Ombudsperson system for Nestlé employees and our whistleblowing system, Speak Up for external stakeholders. We have also established strategic protocols in all our activities to proactively address any reports of potential non-compliance of our breast-milk substitutes (BMS) marketing activities and procedures.

We require all our employees involved in BMS business activities to complete a code compliance training exercise on the WHO Code and the Do's and Don't's of the Nestlé Policy on the implementation of the WHO Code. As part of our efforts to ensure best practices throughout our value chain, we have expanded this requirement to include our partners such as distributors and third-party agencies.

### NESTLÉ RESPONSIBLE SOURCING STANDARD (STANDARD)

The Standard describes the requirements and ways of working that the Group applies for 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. It sets out ways of working with regard to sourcing and production for the Group's supply chain tiers, from the Group to suppliers, through intermediaries and 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 the 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 SDGs.

### WHO CODE OMBUDSPERSON SYSTEM

The Group has put in place an internal WHO Code Ombudsperson System that allows any of the Group's employees to anonymously alert the Group outside the line management structure, via the appointed Ombudsperson of potential policy violations or raise concerns with regards to the marketing of infant formula products. This measure is to ensure the continuous implementation and efficacy of the Nestlé Policy & Procedure of WHO Code Implementation and the Nestlé Malaysia Charter: Infant Formula Policy. All investigations conducted by our appointed Ombudsperson are confidential. The Group creates awareness on the WHO Code Ombudsperson System annually to all its employees. The Group also affords the public a platform to report of any non-compliance concerns via the Company's website [www.speakupfeedback.eu/web/A2VY73/my](http://www.speakupfeedback.eu/web/A2VY73/my) (Access Code: 91738).

### WHISTLEBLOWING

The Group's whistleblowing procedures facilitate the reporting of any incident or potential incident of non-compliance by the Group's employees or any third parties.

Previously, there were separate systems for internal and external reporting. In order to have more transparency and better data, in April 2021 the Nestlé S.A. Group launched a single global internal and external reporting channel for non-compliance concerns and questions, known as Speak Up. Speak Up, our whistleblowing system, provides all Nestlé employees and all other external stakeholders a dedicated communication channel for reporting of non-compliance concerns.

Awareness of the Speak Up channel is shared not only on Nestlé's corporate website but also through communications and awareness creation activities to employees and communications to Nestlé's customers and suppliers.

The identity of the whistleblower is safeguarded at all times and protected from coercion, retaliation or reprisal for their cooperation. For this purpose, Speak Up is operated by an independent third party service provider. All reports will be properly investigated and treated with confidence by the BEFC. Reports of non-compliance received through other avenues will also be investigated in the same manner. In 2022, 18 non-compliance complaints were received under the Speak Up channels and through other avenues, all of which have been duly investigated, and where necessary, actions have been taken.

#### Speak Up

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

**Web** : [www.speakupfeedback.eu/web/A2VY73/my](http://www.speakupfeedback.eu/web/A2VY73/my) (Access Code: 91738)



**GOVERNANCE FRAMEWORK**

**“GUIDED BY THE BOARD AND THE CEO, THE EXECUTIVE DIRECTOR GROUP CORPORATE AFFAIRS IS RESPONSIBLE FOR LEADING NESTLÉ MALAYSIA’S CSV STRATEGY AND SUSTAINABILITY EFFORTS.”**

In line with our commitment to ESG best practices, we pride ourselves on conducting our business in an open and transparent manner. Corporate governance is at the crux of how Nestlé functions as a responsible organisation, cultivating a culture that allows for a flexible governance framework to facilitate fast decision-making and effective oversight.

The Board plays an instrumental role in steering the Company towards sustainable value creation for our shareholders and stakeholders, alongside implementing a robust internal governance structure aligned with our ESG agenda. In tandem, the Board establishes a sound business strategy to propel long-term growth and financial resilience.

The Board comprises of Non-Executive Directors and Senior Executive Management with relevant expertise across diverse sectors. The role of the Board is defined by a formal Board Charter, setting clear parameters for its authority and power. All members of the Board have full and timely access to required information to effectively carry out their duties. Supporting this, the Board Committees are charged with specific responsibilities. This includes ensuring independent oversight of internal controls and risk management, fulfilling prescribed objectives and reporting key outcomes to the Board. The respective Terms of Reference of the Audit Committee and the Governance, Nomination and Compensation Committee are available on the Company’s website at [www.nestle.com.my](http://www.nestle.com.my).

**CREATING SHARED VALUE GOVERNANCE STRUCTURE**

We firmly believe that we can only be successful in the long-term by creating value for both our shareholders and society. This CSV approach is fundamental to our business, shaping our actions in all that we do and guiding us towards realising a more sustainable future for all.

To balance our sustainability agenda with our economic aspirations, we have an ESG and Sustainability Governance Structure in place which encompasses core ESG pillars. This allows us to ensure that the Group implements responsible practices adhering to local and international laws, regulations, as well as the NCBP, while concurrently creating a positive impact on our people, our surrounding communities and the planet.

Upholding our ESG and Sustainability Governance Structure, the Board provides strategic counsel and recommendations on the Group’s CSV approach and alignment of our ESG strategy with business objectives. This entails reviewing pertinent updates, reporting and advising on long-term measures to work towards our ESG commitments, which comprise of the following areas:

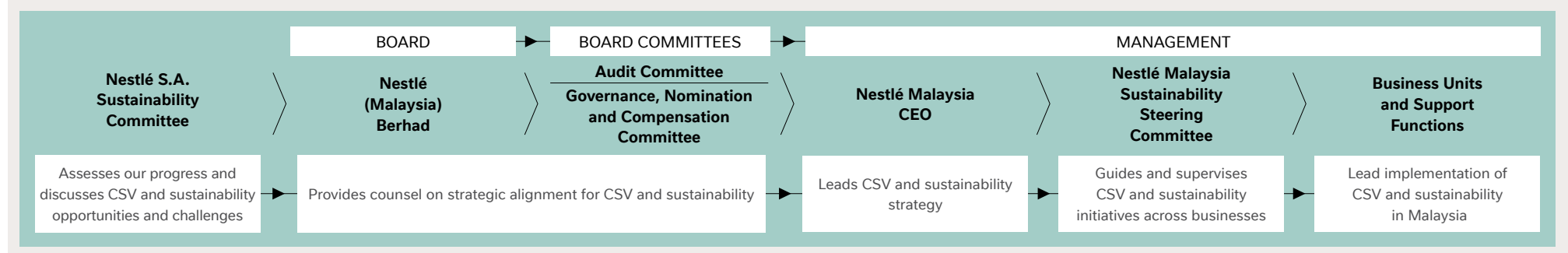


To closely track our progress and facilitate transparent reporting, the Board conducts bi-annual reviews of our key initiatives. In tandem, the Board oversees the Group’s response to material issues and holds periodic discussions on material non-financial issues that could potentially impact the Company’s financial performance. Assessments of the Company’s long-term strategy are also undertaken on a consistent basis to ensure that we remain aligned with our CSV approach and ESG agenda.

As guided by the Board and under the leadership of the CEO, the Executive Director Group Corporate Affairs is the designated person to steer the business units and functions on the implementation of their CSV and sustainability initiatives. Regular progress reviews are also carried out by the Group Corporate Affairs Department with subject matter experts, as well as the CEO and relevant members of the Executive Leadership Team, to ensure continued relevance and meaningful impact.

With a comprehensive and robust governance structure in place, this propels the Group in propagating a strong ESG culture across the organisation. This subsequently enables us to deliver holistic value creation for our various stakeholders and drive the resilient long-term growth of the Group. For further information on our ESG and Sustainability Governance Structure, please refer to page 10 of the Nestlé in Society Report 2022.

**ESG AND SUSTAINABILITY GOVERNANCE STRUCTURE**



## 10 Corporate Governance Overview Statement

### ENGAGING WITH STAKEHOLDERS

The following table provides a summary of our key methods of engagement for each of our stakeholder groups, including the frequency of our engagements with them, their key areas of interest and the value that we create for them.

Stakeholder Groups	Frequency & Engagement Methods	Priority Issues	Our Responses	How We Are Creating Value
<b>Employees</b>	<ul style="list-style-type: none"> <li><b>BA</b> People Development and Performance</li> <li><b>AR</b> Intranet, newsletters and internal e-announcements</li> <li><b>Q</b> Townhall meetings and roadshows</li> <li><b>AR</b> Safety, health and environment initiatives</li> <li><b>Q</b> Employee volunteer programme</li> <li><b>AR</b> Employee events</li> <li><b>A</b> Employee survey</li> <li><b>AR</b> Nestlé Recreational Club</li> </ul>	<ul style="list-style-type: none"> <li>• Employee satisfaction and well-being</li> <li>• Diversity, inclusion and equal opportunity</li> <li>• Training and development</li> <li>• Occupational health and safety</li> <li>• Fair compensation</li> <li>• Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Employee Engagement, page 102</li> <li>• Diversity and Inclusion, page 93</li> <li>• Training and Development, page 95</li> <li>• Safety, Health and Wellbeing, page 98</li> <li>• Employee Compensation and Benefits, page 104</li> <li>• Nestlé Cares Employee Volunteer Programme, page 102</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance gender balance in our workforce and empower women across the entire value chain</li> <li>• Create healthier workplaces</li> <li>• Provide opportunities for professional development</li> </ul>
<b>Consumers and General Public</b>	<ul style="list-style-type: none"> <li><b>O</b> Corporate and brand websites</li> <li><b>O</b> Consumer relationship marketing</li> <li><b>O</b> Social media channels</li> <li><b>O</b> Corporate and brand campaigns</li> <li><b>A</b> Consumer research</li> <li><b>O</b> Advertisements and promotions</li> <li><b>AR</b> Exhibitions and showcases</li> <li><b>AR</b> Product packaging</li> <li><b>O</b> 24/7 Consumer Services Hotline</li> </ul>	<ul style="list-style-type: none"> <li>• Food safety and quality</li> <li>• Halal</li> <li>• Nutrition, health and wellness</li> <li>• Responsible labelling and marketing</li> <li>• Innovation</li> <li>• Transparency and integrity</li> <li>• Environmental impact</li> <li>• Affordability</li> <li>• Consumer feedback and queries</li> </ul>	<ul style="list-style-type: none"> <li>• Product Safety and Quality, page 39</li> <li>• Our Halal Commitment, page 40</li> <li>• Tastier and Healthier Choices, page 24</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Enhancing Biomedical Science Through Nutritional Therapy, page 29</li> <li>• Healthier Lives Through Nutrition Knowledge, page 32</li> <li>• Operating Responsibly, page 90</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver relevant product innovations and offerings that meet consumers' needs and preferences</li> <li>• Provide easily accessible information pertaining to our products</li> </ul>
<b>Shareholders and Investors</b>	<ul style="list-style-type: none"> <li><b>A</b> Annual and Sustainability Reports</li> <li><b>A</b> Annual General Meeting</li> <li><b>A</b> Analyst briefings</li> <li><b>BA</b> Announcements to Bursa Malaysia Securities Berhad</li> <li><b>AR</b> One-on-one and group investor meetings and calls</li> <li><b>AR</b> Disclosures on corporate website</li> </ul>	<ul style="list-style-type: none"> <li>• Business performance</li> <li>• Integrity and governance</li> <li>• Business strategy</li> <li>• Regulatory compliance</li> <li>• Reporting</li> <li>• Risk management</li> <li>• Environment, social and governance updates</li> </ul>	<ul style="list-style-type: none"> <li>• Fast Facts, page 3</li> <li>• Operating Responsibly, page 90</li> <li>• Creating Shared Value Governance, page 10</li> <li>• Nestlé In Society: Creating Shared Value, page 8</li> <li>• Basis of This Report, page 2</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver strong profits through solid financial performance</li> </ul>

#### Frequency

**D** Daily

**Q** Quarterly

**BE** Bi-ennially

**W** Weekly

**A** Annually

**M** Monthly

**BA** Bi-Annually

**AM** Alternate Month

**BM** Bi-monthly

**AR** As required

**O** Ongoing

# Corporate Governance Overview Statement

## Engaging with Stakeholders

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Stakeholder Groups	Frequency & Engagement Methods	Priority Issues	Our Responses	How We Are Creating Value
<b>Local Communities</b>	<ul style="list-style-type: none"> <li><b>O</b> Community development programmes</li> <li><b>O</b> CSV projects</li> <li><b>M</b> Monthly food contribution programmes</li> <li><b>O</b> Corporate Social Responsibility initiatives</li> <li><b>O</b> Farmer Connect programmes</li> <li><b>O</b> Food bank programmes</li> <li><b>O</b> Initiatives supporting lower-income, hardcore poor and vulnerable communities</li> </ul>	<ul style="list-style-type: none"> <li>• Employee volunteerism</li> <li>• Community engagement</li> <li>• Rural development and empowerment</li> <li>• Sustainable agriculture</li> <li>• Environmental impact</li> <li>• Food security</li> <li>• Nutrition, health and wellness</li> <li>• Supporting B40 group and other vulnerable communities</li> </ul>	<ul style="list-style-type: none"> <li>• Employee Engagement, page 102</li> <li>• Enriching Lives in Our Communities, page 89</li> <li>• Farmer Connect Programmes, page 79</li> <li>• Regenerative Agriculture, page 55</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> <li>• Tastier and Healthier Choices, page 24</li> <li>• SME Mentoring Programme, page 42</li> <li>• Water Partnerships and Advocacy, page 60</li> <li>• Reducing Food Waste, page 53</li> </ul>	<ul style="list-style-type: none"> <li>• Support the nutrition, health and well-being of communities</li> <li>• Contribute to the development of rural communities</li> <li>• Preserve and restore natural resources for future generations</li> </ul>
<b>Non-Governmental Organisations</b>	<ul style="list-style-type: none"> <li><b>BE</b> Stakeholder engagement dialogues and materiality assessments</li> <li><b>AR</b> Roundtable discussions</li> <li><b>AR</b> Strategic partnerships and agreements</li> <li><b>O</b> Memberships</li> <li><b>M</b> Monthly food contribution programmes</li> <li><b>BE</b> Key Opinion Leaders survey</li> <li><b>O</b> Corporate Social Responsibility support</li> </ul>	<ul style="list-style-type: none"> <li>• Nutrition, health and wellness</li> <li>• Responsible labelling and marketing</li> <li>• Sustainable agriculture</li> <li>• Labour conditions and standards</li> <li>• Environmental and climate change impact</li> <li>• Community engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Tastier and Healthier Choices, page 24</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Regenerative Agriculture, page 55</li> <li>• Diversity and Inclusion, page 93</li> <li>• Safety, Health and Wellbeing, page 98</li> <li>• Climate and Nature, page 46</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> <li>• Enriching Lives in Our Communities, page 89</li> </ul>	<ul style="list-style-type: none"> <li>• Provide opportunities for partnerships and collaborations to support nutrition, health and wellness of communities in need</li> <li>• Drive policy development and industry-wide changes</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li><b>AR</b> Advocacy meetings</li> <li><b>AR</b> Roundtable issue discussions</li> <li><b>AR</b> Ministerial engagements and dialogues</li> <li><b>O</b> Regulatory filings</li> <li><b>AR</b> Exhibitions and showcases</li> <li><b>AR</b> Key Opinion Leaders survey</li> <li><b>BE</b> Materiality assessments</li> <li><b>AR</b> Industry and regulatory working groups</li> </ul>	<ul style="list-style-type: none"> <li>• Food safety and quality</li> <li>• Responsible labelling and marketing</li> <li>• Regulatory compliance</li> <li>• Nutrition, health and wellness</li> <li>• Environmental impact</li> <li>• Job creation</li> <li>• Economic development</li> <li>• Regulatory reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Product Safety and Quality, page 39</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Operating Responsibly, page 90</li> <li>• Tastier and Healthier Choices, page 24</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> <li>• Farmer Connect Programmes, page 79</li> <li>• SME Mentoring Programme, page 42</li> </ul>	<ul style="list-style-type: none"> <li>• Support policy and standards development</li> <li>• Supporting underserved communities</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li><b>AR</b> Face-to-face engagements</li> <li><b>AR</b> Dialogues and forums</li> <li><b>AR</b> Media familiarisation trip to CSV project sites</li> <li><b>AR</b> Corporate and brand events</li> <li><b>BE</b> Key Opinion Leaders survey</li> </ul>	<ul style="list-style-type: none"> <li>• Food safety and quality</li> <li>• Nutrition, health and wellness</li> <li>• Responsible labelling and marketing</li> <li>• Transparency and integrity</li> <li>• Environmental and climate change impacts</li> <li>• Rural and community development</li> <li>• Business performance</li> </ul>	<ul style="list-style-type: none"> <li>• Product Safety and Quality, page 39</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Tastier and Healthier Choices, page 24</li> <li>• Operating Responsibly, page 90</li> <li>• Climate and Nature, page 46</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> <li>• Farmer Connect Programmes, page 79</li> <li>• SME Mentoring Programme, page 42</li> <li>• Enriching Lives in Our Communities, page 89</li> <li>• Fast Facts, page 3</li> </ul>	<ul style="list-style-type: none"> <li>• Foster open communication with media practitioners</li> <li>• Distribute important information on the business to the public</li> </ul>

**Frequency****D** Daily**Q** Quarterly**BE** Bi-ennially**W** Weekly**A** Annually**M** Monthly**BA** Bi-Annually**AM** Alternate Month**BM** Bi-monthly**AR** As required**O** Ongoing



## 12 Corporate Governance Overview Statement Engaging with Stakeholders

Stakeholder Groups	Frequency & Engagement Methods	Priority Issues	Our Responses	How We Are Creating Value
<b>Industry and Trade Associations</b>	<ul style="list-style-type: none"> <li><b>AR</b> Key associations</li> <li><b>AR</b> Advisory panelists</li> <li><b>BE</b> Key Opinion Leaders survey</li> <li><b>AR</b> Exhibitions and showcases</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible labelling and marketing</li> <li>• Sustainable agriculture</li> <li>• Labour conditions and standards</li> <li>• Environmental and climate change impact</li> <li>• Economic development</li> <li>• Regulatory compliance</li> <li>• Job creation</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Sustainable Sourcing, page 75</li> <li>• Regenerative Agriculture, page 55</li> <li>• Climate and Nature, page 46</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> <li>• SME Mentoring Programme, page 42</li> <li>• Operating Responsibly, page 90</li> <li>• Farmer Connect Programmes, page 79</li> <li>• Youth Opportunities, page 86</li> </ul>	<ul style="list-style-type: none"> <li>• Support compliance with industry standards and regulation</li> <li>• Provide beneficial support for mutual growth across the industry</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li><b>BE</b> Supplier Engagement Day</li> <li><b>AR</b> Training on Responsible Sourcing Standard and Anti-Corruption</li> <li><b>O</b> Small and Medium Enterprise Mentoring Programme</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational health and safety</li> <li>• Human rights</li> <li>• Responsible sourcing</li> <li>• Sustainable agriculture</li> <li>• Regulatory compliance</li> <li>• Rural development and empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• Safety, Health and Wellbeing, page 98</li> <li>• Farmer Connect Programmes, page 79</li> <li>• Sustainable Sourcing, page 75</li> <li>• Our Commitment to Sustainable Palm Oil, page 77</li> <li>• Regenerative Agriculture, page 55</li> <li>• Operating Responsibly, page 90</li> </ul>	<ul style="list-style-type: none"> <li>• Support development of suppliers throughout the value chain</li> <li>• Support compliance of suppliers with laws and regulations</li> <li>• Promote sustainability in the production of food and beverages</li> </ul>
<b>Customers/Retailers</b>	<ul style="list-style-type: none"> <li><b>O</b> Product campaigns</li> <li><b>O</b> Consumer engagement activities</li> <li><b>O</b> Customer relationship management</li> <li><b>O</b> Corporate Social Responsibility support</li> </ul>	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Responsible labelling and marketing</li> <li>• Nutrition, health and wellness</li> <li>• Food safety and quality</li> <li>• Customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing Biomedical Science Through Nutritional Therapy, page 29</li> <li>• Healthier Lives Through Nutrition Knowledge, page 32</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Tastier and Healthier Choices, page 24</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver relevant product innovations and offerings that meet consumers' needs and preferences</li> <li>• Provide easily accessible information on products</li> </ul>
<b>Academia</b>	<ul style="list-style-type: none"> <li><b>AR</b> Partnership programmes</li> <li><b>AR</b> Talks and forums</li> <li><b>O</b> Employer branding activities (e.g. career fair)</li> <li><b>BI</b> Key Opinion Leader survey</li> </ul>	<ul style="list-style-type: none"> <li>• Nutrition, health and wellness</li> <li>• Food safety and quality</li> <li>• Responsible labelling and marketing</li> <li>• Environmental and climate change impact</li> </ul>	<ul style="list-style-type: none"> <li>• Tastier and Healthier Choices, page 24</li> <li>• Product Safety and Quality, page 39</li> <li>• Responsible Marketing and Advertising, page 37</li> <li>• Climate and Nature, page 46</li> <li>• Helping to Protect, Renew and Restore Natural Resources, page 44</li> </ul>	<ul style="list-style-type: none"> <li>• Support underserved communities</li> <li>• Promote knowledge-sharing</li> </ul>

### Frequency

**D** Daily**Q** Quarterly**BE** Bi-ennially**W** Weekly**A** Annually**M** Monthly**BA** Bi-Annually**AM** Alternate Month**BM** Bi-monthly**AR** As required**O** Ongoing

# Corporate Governance Overview Statement

## LEADERSHIP & EFFECTIVENESS

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### THE BOARD

The Board is collectively responsible for the Company's purpose, values and strategy, and ensuring that the necessary resources are available for long-term sustainable success to generate value for shareholders and contribute to the wider society. The Board has an overview and provide guidance as well as input on the strategic plan presented by the senior management team, and believes that a strong ESG commitment aligned with our purpose is extremely important and provides a competitive advantage. It continuously monitors management and financial performance against the Company's objectives, in addition to the strategy and major initiatives throughout the year. At every quarterly Board meeting, the Board receives updates on operational and financial matters, the performance of the Group, trends as well as any major ongoing initiatives. The Management also provides the Board with relevant updates in between meetings, to allow for appropriate oversight and monitoring by the Board.

### COMMITMENT

Under the Companies Act 2016 (the Act), the Directors have a statutory duty to avoid conflicts of interest with the Company. While Paragraph 15.06 of the Listing Requirements allows for a Director to sit on the Board of up to five listed issuers, the Board has in place procedures for the Directors to comply with before accepting any new external Board appointments. This is to ensure that each Director's other commitments do not interfere with its responsibilities as a member of the Board. Any potential conflicts and commitments are to be notified to the Company Secretary, considered by the GNCC prior to it being brought to the attention of the Board at its next scheduled meeting. Notification of new directorship is expected to include an indication of the time that will be spent on the new external appointment. In particular, the GNCC and the Board consider the type of role, expected time commitment, potential conflict and any impact which it may have on the Director's duties to the Company, as well as any relationships between the Company and external organisations.

### CULTURE AND VALUES

Our culture empowers our people to consistently achieve their deliverables and add value to the organisation while upholding strong principles of integrity, compliance and good corporate governance. Positive values such as courage and open mindedness are instilled to encourage our people to reach their utmost potential and to create an environment which encourages innovation. The Board's important role in promoting this culture is evident throughout the organisation, by ensuring workforce polices, practices and behaviours are aligned with the Company's purpose, values and strategy. We action this through the Executive Leadership Team.

### BOARD INFORMATION FLOW

Information flow is managed by the Company Secretary in consultation with the Chairman and CEO. All Directors have access to the Company Secretary, who ensures that the Board has the policies, processes, time and resources it needs to function effectively and efficiently. This includes regulatory and corporate governance updates to all Board members. Regular management updates are also sent to Directors to keep them abreast of matters and initiatives under their purview. Aside from formal meetings, the Chairman, CEO and Company Secretary maintain regular contact with all Directors. During the year under review, the Board had two in-camera sessions with only the Non-Executive Directors, in the absence of the Executive Directors for an open discussion and a higher degree of independence and oversight.

### PURPOSE, BUSINESS MODEL AND STRATEGY

The Board spends considerable time in assessing the Company's performance, plans and whether any proposed action aligns with the strategy and future direction of the business, taking into consideration the importance of sustainability and the impact on our stakeholders. The Board reviews and deliberates on the specific business strategies in line with its purpose and ensures that the Company has a structured framework to manage risks and adequate internal controls for the effective and successful implementation of the strategies.

### BOARD DIVERSITY

The Board places great emphasis on the principle of diversity and recognises its benefits in its broadest sense. Diversity at the leadership level is considered to be an essential element to ensure the effectiveness of the Board and the senior management team.

There is a Diversity Policy in place and the Board is supportive of the MCCG recommendation of having 30% representation of women Directors. There are currently three female Directors constituting 43% of the Board's composition and five women are members of the Executive Leadership Team which is equivalent to 45% representation.



## Corporate Governance Overview Statement

### ACCOUNTABILITY

#### FINANCIAL CONTROL AND REPORTING

The Company reports to shareholders on its financial performance four times a year. The Audit Committee reviewed the quarterly financial reports, the full-year financial statements and Annual Report for the financial year ended 31 December 2022 prior to it being presented to the Board. It also reviewed the plan for the preparation of the financial statements, the significant judgements and estimates that impact the financial statements, if any, and took into consideration of EY's comments on these documents.

The Audit Committee monitors the implications of new accounting standards and other regulatory developments for the Company's financial reporting and regularly receives technical updates from the external auditors.

#### RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's internal control framework and risk management. As delegated to the Audit Committee, it has established a process for identifying, evaluating and managing the principal risks faced by the Group and for identifying and responding to emerging risks. The Group reviews and assesses the risks it faces in its business, changes in principal risks faced by the Group and how these risks are managed, with consideration given to the Board's assessment of risk appetite. These reviews are conducted throughout the year together with the Management of each of the Group's businesses and are documented in an annual risk assessment, including the updated risk register.

The reviews consider whether any matters have arisen since the last report was prepared, which might indicate omissions or inadequacies in that assessment. It also considers whether as a result of changes in either the internal or external environment, any significant new risks have arisen or whether there are any emerging risks which may impact the Group. The Board monitors the risk management framework and internal control systems on a quarterly basis. Further, the Board continually reassesses the effectiveness of the Group's risk management framework and internal control system, and seeks to identify ways in which to further improve and strengthen them.

As part of the Board's monitoring during the year, through the Audit Committee it had several focused sessions with the Risk Management & Control Manager on topics relating to the Group's Enterprise Risk Management framework, the risk assessment overview and process, their timelines for risk assessment and the eventual identification of top risks and mitigation plans for 2022.

Further, the adequacy and effectiveness of the Group's internal control procedures, covering financial, operational and compliance controls were also reviewed. The Board considers that the Group's internal control systems are designed appropriately and are able to manage and minimise, rather than eliminate, the risk of failure to achieve its business objectives. Any such control system, however, can only provide reasonable and not absolute assurance against material misstatement or loss.

**CGFR** For further information on Nestlé Internal Audit, please refer to [page 26](#) of this Report.

**CGFR** For further information on Risk Management and Internal Control, please refer to [pages 29 to 33](#) of this Report.

# Corporate Governance Overview Statement

## KEY ACTIVITIES OF THE BOARD IN 2022

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In the year under review, five Board meetings were held. An overview of the Board's key activities on the matters reviewed and considered is provided below.

STRATEGY	FINANCIAL	
<ul style="list-style-type: none"> <li>Nestlé Zone Asia, Oceania and sub-Saharan Africa (AOA) Group's Strategic Roadmap</li> <li>Group's Strategy and Roadmap, and the implementation thereof</li> <li>Business Strategy and operational activities</li> <li>Retail and consumer landscaping</li> <li>Out-of-Home Business Strategy</li> <li>Sales and Marketing Strategy including e-commerce</li> <li>Export Business Strategy</li> <li>Cyber Security</li> <li>Halal Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Cumulative full year results for the financial year ended 31 December 2021</li> <li>Directors' Report and Audited Financial Statements for the financial year ended 31 December 2021</li> <li>Quarterly Results</li> <li>Report on Company's quarterly and previous year's performance and outlook for the year</li> <li>Dividend payments and solvency position of the Company</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with the Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the financial statements</li> <li>General budget</li> <li>Capital Expenditure budget</li> <li>Tax updates</li> <li>Financial results announcements to Bursa Malaysia</li> <li>Recurrent Related Party Transactions by the Group</li> <li>Quarterly and full year Nestlé S.A. results</li> </ul>
SUSTAINABILITY, ENVIRONMENT AND SOCIAL	GOVERNANCE	
<ul style="list-style-type: none"> <li>Net Zero Roadmap</li> <li>Creating Shared Value (CSV) initiatives</li> <li>Sustainability initiatives</li> <li>Update from CSV Council</li> <li>ESG updates</li> <li>Climate change &amp; environmental impact</li> <li>Nestlé's efforts in promoting sports</li> </ul>	<ul style="list-style-type: none"> <li>Group's compliance with the Listing Requirements</li> <li>Compliance with the MCCG and Companies Act 2016</li> <li>Amendments/updates to the Listing Requirements</li> <li>Amendments/updates to the MCCG.</li> <li>MCCG gap assessment and action plans therefrom</li> <li>Company's announcements released to Bursa Malaysia</li> <li>Submission of the semi-annual returns to Bursa Malaysia</li> <li>Directors' Written Resolutions passed by the Board</li> <li>Minutes of Meetings of the Board Committees</li> <li>Board Committees' reports and recommendations</li> </ul>	<ul style="list-style-type: none"> <li>Board Charter and the Terms of Reference of the Board Committees</li> <li>Appointment of Ernst &amp; Young PLT (EY) as the Group's external auditors for the financial year ending 31 December 2022 and to ensure the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements and maintain its independence</li> <li>Diversity Policy</li> <li>Compensation Policy</li> <li>Corporate Governance Report and the Annual Report 2021</li> <li>Board Effectiveness Evaluation (BEE) results and Assessment of Directors' Independence</li> <li>Composition and skills of the Board and Board Committees</li> </ul>
SHAREHOLDERS/INVESTORS AND ENGAGEMENT	<ul style="list-style-type: none"> <li>Performance and effectiveness of the Board, Board Committees and individual Directors</li> <li>Approved Director's Fit and Proper Policy and the Term of Reference of Board's Committees</li> <li>Time commitment of directors</li> <li>Other directorship of the Board members</li> <li>Board Improvement Programme based on the results of the BEE</li> <li>Nestlé Corporate Business Principles, Nestlé Code of Business Conduct, Nestlé Corporate Governance Guidelines and the Nestlé Malaysia Anti-Corruption Gifts &amp; Entertainment Guidelines</li> <li>WHO Code Compliance update</li> <li>Effectiveness of Board meetings</li> <li>Board Agenda 2022 and 2023</li> </ul>	
RISK MANAGEMENT AND INTERNAL CONTROL	LEADERSHIP AND PEOPLE	
<ul style="list-style-type: none"> <li>Enterprise Risk Management, mitigating measures and updates</li> <li>Cyber security landscape, risks and updates</li> <li>Regulatory landscape risks impacting the business</li> <li>Corruption risks and update on Anti-Corruption initiatives</li> <li>Commodity outlook</li> <li>Report on major litigation, claims and/or issues with substantial financial impact (if any)</li> </ul>	<ul style="list-style-type: none"> <li>Reports from the Nestlé Internal Audit, the recommendations and management responses</li> <li>Reports from the external auditors</li> <li>Statement of Risk Management and Internal Control for the Annual Report</li> <li>COVID-19 pandemic</li> <li>Data Privacy</li> <li>Speak Up updates</li> </ul>	<ul style="list-style-type: none"> <li>Board succession plans, Board composition and Board Diversity and inclusion (including gender, ethnicity/cultural background and age diversity)</li> <li>Tenure of Directors</li> <li>Retirement of Directors by rotation, the re-election of Directors</li> <li>Board trainings</li> <li>Compensation of the Executive Directors</li> <li>Compensation of the Nestlé Leadership Team</li> </ul>
<ul style="list-style-type: none"> <li>Remuneration Review Exercise for Non-Executive Directors</li> <li>Compensation Direction for the employees of the Group</li> <li>Management development of the Nestlé Leadership Team</li> <li>Succession plan of the Nestlé Leadership Team</li> <li>Status of the Collective Agreement negotiations with the Food Industry Employees Union</li> <li>Management Trainee Programme</li> <li>Human Resource updates</li> </ul>		

## Corporate Governance Overview Statement

### DIRECTORS' APPOINTMENT AND RE-ELECTION

#### APPOINTMENTS TO THE BOARD

At Nestlé Malaysia, we ensure that appointments to the Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, expertise, length of service and knowledge of the Group to successfully lead the Group's strategy.

Appointments are made based on the recommendation of the GNCC with due consideration given to the benefits of diversity in its widest sense, including gender, experience, knowledge, competencies, age and personal strengths as guided by the Company's Diversity Policy and the ability to provide the required time commitment to effectively fulfil the role as a Director.

Additionally, all Board appointments are subject to the new Directors' Fit and Proper Policy as approved by the Board in July 2022, and re-election is also conditional upon the satisfactory performance and contribution based on the Directors' and Board's annual effectiveness evaluation. The GNCC leads the process for Board appointments and re-election, and makes recommendations to the Board. The final decision is in the hands of the Board.

For further information on the Diversity Policy and Directors' Fit and Proper Policy, can be found on the Company's website at [www.nestle.com.my](http://www.nestle.com.my).

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

- Identification of gap and skills required
- Selection of candidates
- Assessment of candidates
- Interaction with candidates
- Due diligence
- Assessment on Fit and Proper criteria
- Review by the Governance, Nomination and Compensation Committee
- Board Approval

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

- Skill, knowledge, competencies, expertise and experience
- Commitment, potential contributions and performance
- Professionalism
- Integrity
- Industry standing
- Leadership
- Diversity

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

#### RE-ELECTION OF DIRECTORS

The Board of Directors had through its GNCC carried out an evaluation of the Directors who are eligible for re-election under Articles 97.1 and 106 of the Company's Constitution. Based on the performance and contribution evaluation, the Board is satisfied that the following Directors who have offered themselves for re-election, have met the Board's expectations in the discharge of their duties and responsibilities, therefore recommending their re-election at the 39<sup>th</sup> Annual General Meeting (AGM).

The following Directors shall retire in accordance with Article 97.1 of the Company's Constitution:

##### 1. Dato' Hamidah Naziadin (Appointed on 1 May 2020, a member of the GNCC)

Dato' Hamidah has vast experience in human resource and industrial relations, in the financial services sectors across Malaysia and ASEAN. She was also instrumental in leading the corporate social responsibility agenda of CIMB Foundation which was focused on enhancing community development, sports and education. She is currently a Board Member of the National Sports Council of Malaysia which focuses on driving the ambitions of the country to develop a sporting nation. With her strong credentials in developing talents and promoting corporate social responsibility, Dato' Hamidah provides valuable guidance to the Management in creating a diverse high performing workforce brings a different perspective to the GNCC and the Board, ensuring more robust discussion.

In addition to the above, Dato' Hamidah has also met all the criterias in accordance with the Directors' Fit and Proper Policy.

##### 2. Datin Sri Azlin Arshad (Appointed on 1 May 2020, a member of the Audit Committee)

Datin Sri Azlin has informed the Company that she does not wish to offer herself for re-election. She will retain office until the conclusion of the 39<sup>th</sup> AGM and will retire in accordance with Article 97.1 of the Constitution of the Company.

The following Director shall retire in accordance with Article 106 of the Company's Constitution:

##### Syed Saiful Islam (Appointed to the Board on 1 August 2022)

Syed Saiful joined Nestlé in 1999 and has held several leadership roles within the Nestlé Group. In his role in Finance & Control, he played a key role in managing tough and volatile economic conditions and input cost headwinds when the business still managed to deliver strong growth and higher profit. The recommendation to re-elect Syed Saiful is based on his strong leadership, good decision-making abilities and being well-versed with the requirements and implications of being CFO of public listed companies.

All Directors standing for re-election have abstained from deliberations and decisions on their own eligibility to stand for re-election at the 39<sup>th</sup> AGM of the Company.





**DIRECTORS' INDUCTION AND DEVELOPMENT**

The Directors undergo bespoke induction programme and receive a range of information about the Group when they join the Board. This includes information and business strategies of the Group, whereby each Director is given the opportunity to meet with all members of the Nestlé Leadership Team and to visit the Group's key sites. This enables familiarisation with the businesses, operations, systems and markets in which the Group operates.

In addition, a comprehensive Director's Handbook that contains amongst others, meeting calendar, meeting agenda, details of Board procedures, Directors' responsibilities, Board Charter, Terms of Reference, Nestlé's Guidelines and Policies, the MCCG and other relevant documents related to their roles is also provided to all Directors.

As a continuation to their induction programme, Mr. Chin Kwai Fatt and YM Dr. Tunku Alina Raja Muhd. Alias visited the Nestlé National Distribution Centre. During the year under review, the Company has also organised a visit to the Chembong Factory and a trade visit for the Directors.

To ensure the smooth transition of the new CFO, Syed Saiful had an extensive onboarding programme with all business units and functions of Nestlé Malaysia which included visits to the Group's key sites and sales offices. He has also attended the Mandatory Accreditation Programme.

**DIRECTORS' TRAINING**

To ensure the Board continuously updates and refreshes its skills and knowledge, ongoing training and development support is provided to the Board during the year. The Board is regularly briefed on business-related matters, investor expectations, legal and regulatory impacts. Both the Audit Committee and the GNCC received updates on relevant accounting and remuneration developments, evolving market trends, governance and disclosure requirements from external advisers and the Management.

The Directors may also raise any training needs with the Chairman or the Company Secretary which helps to ensure that the training programme meets the needs of the Board, Directors and the business. They may also request training on specific issues and have access to relevant external courses. From time to time, meetings with specialists from the businesses are arranged for Directors who may wish to gain a deeper insight into a particular topic. The Directors also have access to the advice of the Company Secretary, and independent professional advice is also available at the Company's expense, if necessary, in fulfilling their duties and responsibilities.

**COLLECTIVELY, DIRECTORS HAVE ATTENDED TRAININGS COVERING THESE AREAS**12  
topics

STRATEGY

11  
topicsHUMAN  
RESOURCE9  
topics

GOVERNANCE

14  
topics

FINANCE

12  
topics

DIGITAL

19  
topicsSUSTAINABILITY &  
ESG

## Corporate Governance Overview Statement

## GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE REPORT

## Chairman



**YAM TAN SRI DATO'  
SERI SYED ANWAR  
JAMALULLAIL**

Non Independent  
Non-Executive Director

## Member



**DATO' HAMIDAH NAZIADIN**

Independent Non-Executive Director

## Member



**YM DR. TUNKU ALINA RAJA MUHD. ALIAS**

Independent Non-Executive Director

The Governance, Nomination and Compensation Committee drives good corporate governance within the Board and the Group; reinforces professional, ethical behaviour and a compliance culture; leads the Board in ensuring that the Board and the Nestlé Leadership Team comprise 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 Nestlé Leadership Team and employees of the Group.

## PRINCIPAL RESPONSIBILITIES

- 1 Oversees matters relating to good corporate governance practices and compliance.
- 2 Reinforces the Group's stand against bribery and corruption.
- 3 Reviews the composition, skills, competencies and diversity of the Board.
- 4 Assesses the independence of Non-Executive Directors.
- 5 Evaluates the performance and effectiveness of the Board, Board Committees, and individual Directors.
- 6 Reviews the Board Succession Plan and identify suitable candidates for appointment to the Board and Board Committees.
- 7 Assesses the potential Board candidates and Directors eligible for re-election.
- 8 Provides recommendation to the Board on new Board appointment and the re-election of Directors.
- 9 Reviews the diversity and succession planning of the Nestlé Leadership Team.
- 10 Assesses and formulate broad compensation strategy for the employees of the Group.
- 11 Reviews the compensation package for the Executive Directors, Non-Executive Director and the Nestlé Leadership Team.

→ 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](http://www.nestle.com.my)



## PRIORITIES FOR 2023

- Succession planning for the Board Chairman and the members of the Board
- Enhancing the Board skill set in ESG Leadership
- Building talents for the future, embracing diversity, equity and inclusion

## Corporate Governance Overview Statement

### Governance, Nomination and Compensation Committee Report

#### MEMBERSHIP OF THE COMMITTEE

The Committee consists of exclusively Non-Executive Directors. The members of the Committee are Independent Directors, save for YAM Tan Sri Dato' Seri Syed Anwar Jamalullail. Notwithstanding the provisions under Practice 1.4 and Practice 5.8 of the MCCG, the Committee and the Board have assessed that YAM Tan Sri Dato' Seri Syed Anwar Jamalullail would be the most suitable Director to chair the Committee based on his exemplary leadership, in-depth knowledge and insights, and extensive experience which adds tremendous value towards an effective Committee.

Further details on the Committee members' skills, qualifications, experience and expertise are set out in pages 47 to 49 of the Annual Review Report 2022.

#### HOW THE COMMITTEE OPERATES

The Committee meets a minimum of two times a year, and more frequently as necessary, with a quorum established by the presence of the Chairman and at least one member who must be an Independent Director. During the financial year ended 2022, the Committee met three times with all members in attendance at all meetings. Other members of the Management Team such as the CEO, Executive Director Group Human Resource, Rewards Manager and external advisers may be invited to attend the meeting, as and when appropriate, for matters relevant to their roles and responsibilities.

There is an annual cycle of items considered by the Committee covering its roles and responsibilities as defined in the Committee's Terms of Reference, which provides a framework for the Committee's work. The agenda cycle is reviewed annually to ensure that the Committee remains proactive and relevant, and to take into account any corporate governance developments. The Committee continuously reviews and updates its Terms of Reference, with the last review carried out on 13 February 2023 and approved by the Board on 21 February 2023.

No Director is involved in any deliberations or decisions with regard to matters that they have an interest in.

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

#### BOARD APPOINTMENTS

The Committee has a formal, rigorous and transparent procedure for the appointment of new Directors. Appointments are made to the Board based on objective criteria and aligned with the Company's strategy, with due regard to the benefits of diversity and the leadership needs of the Company.

In line with the Listing Requirements and the MCCG, the Committee discussed and deliberated the Directors' Fit and Proper Policy which was subsequently approved and adopted by the Board. The Committee shall be guided by the policy for the review and assessment of potential candidates and Directors who are eligible for re-election.

This Directors' Fit and Proper Policy is designed with the following criteria to ensure that all members of the Board and any new members have the necessary qualities, competencies, experience and time commitment for the effective and efficient functioning of the Board and its Committees.

##### Character and Integrity

- i. Probity
- ii. Financial Integrity
- iii. Personal Integrity
- iv. Reputation

##### Experience and Competence

- i. Qualification, training and skills
- ii. Relevant experience and expertise
- iii. Relevant past performance or track record

##### Time and Commitment

- i. Ability to discharge role having regard to other commitments
- ii. Participation and contribution in the Board or track record

Once the required skills, expertise and experience are identified, profiles of the proposed candidates are reviewed as guided by the Directors' Fit and Proper Policy. Before nominating a candidate, a due diligence process is undertaken to satisfy the Committee of the candidate's integrity, skills, competencies, experience, independence and the candidate's ability to devote sufficient time to the role. Following the completion of this due diligence process and a non-conflict declaration, a final recommendation is made to the Board by the Committee.

During the financial year under review, the Committee facilitated the smooth transition of the Executive Director, who is also the CFO, Syed Saiful Islam. Syed Saiful has undergone Mandatory Accreditation Training and the necessary induction relevant to his role. For more information, please refer to [page 16](#) of this Report.

## 20 Corporate Governance Overview Statement Governance, Nomination and Compensation Committee Report

### ACTIVITIES OF THE COMMITTEE DURING THE YEAR

AREA OF FOCUS	MATTERS REVIEWED AND CONSIDERED
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Corporate governance and compliance matters.</li> <li>• Changes to the Board Charter.</li> <li>• Update the key changes of the MCCG.</li> <li>• Application of the practices under the MCCG.</li> <li>• Sustainability leadership by the Board.</li> <li>• Group's Anti-Corruption commitments and initiatives.</li> <li>• Revisions to the Board Charter, Terms of Reference of the Committee with the adoption of the Directors' Fit and Proper Policy.</li> </ul>
<b>Nomination/ People</b>	<ul style="list-style-type: none"> <li>• Contribution, performance and the effectiveness of the Board as a whole, the Board Committees and individual Directors.</li> <li>• 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.</li> <li>• Board composition (including gender, ethnicity and age diversity).</li> <li>• Diversity Policy.</li> <li>• BEE and Assessment of Director's Independence.</li> <li>• Board Improvement Programme based on the outcome of the BEE.</li> <li>• Declaration of directorship and time commitment of each Director.</li> <li>• Board retirement schedule.</li> <li>• Directors' Fit and Proper Policy.</li> <li>• Re-election and retention of Directors at the Annual General Meeting and making the necessary recommendations to the Board.</li> <li>• Succession plans for the Non-Executive Directors, including the Chairman of the Board.</li> <li>• Management development and succession plans for the Nestlé Leadership Team.</li> <li>• 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.</li> <li>• Reviewed the Independence of Directors.</li> </ul>
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Employee Remuneration Direction Package for 2022.</li> <li>• Proposed Employee Remuneration Direction Package 2023.</li> <li>• Compensation Package of the Executive Directors.</li> <li>• Compensation Package of the Nestlé Leadership Team.</li> <li>• Compensation of Board of Directors.</li> <li>• Compensation Policy.</li> </ul>
<b>Governance, Nomination &amp; Compensation</b>	<ul style="list-style-type: none"> <li>• Committee Agenda for 2022 and 2023.</li> <li>• Effectiveness of the Committee meetings.</li> <li>• Terms of Reference of the Committee.</li> <li>• Governance, Nomination and Compensation Committee Report to be disclosed in the Annual Report 2021.</li> </ul>



## BOARD EFFECTIVENESS EVALUATION

## “HIGH DEGREE OF TRANSPARENCY AND GOOD RELATIONSHIP BETWEEN THE BOARD AND CEO”

As set out in the Board Charter, the GNCC carries out the BEE exercise annually to assess all aspects of the effectiveness of the Board and its Committees, the Chairman and each individual Directors. Once every three (3) years an external consultant is engaged to assist the GNCC to facilitate an objective and candid board evaluation.

Upon the completion of the BEE exercise, the Chairman has one-on-one sessions with each individual Director to share the respective Director’s performance, contribution and areas of development.

During the year under review, the GNCC conducted the BEE exercise internally as facilitated by the Company Secretary. It also engaged the services of an external consultant, Towers Watson (Malaysia) Sdn. Bhd. to carry out detailed individual interview sessions with Board members and a few members of the senior management team to further strengthen the BEE process.

The BEE questionnaires were tailored to the specific needs and nuances of the Board which comprised an assessment of the Board of Directors, Director’s Skill Set, Directors’ Self and Peer Assessment, Independence Assessment of Independent Directors, assessment of the Audit Committee and the GNCC.

The results of the BEE and the feedback from the interviews were reviewed by the GNCC and presented by the Company Secretary together with the external consultant at the Board meeting in February 2023 for the Board’s consideration. The results would be further used in developing action plans for enhancing overall effectiveness of the Board and its Committees.

The review concluded that the Board and its Committees continue to be effective, working in a spirit of trust, openness and inclusivity. There was recognition of the Board and its Committees’ well-rounded composition, the strong leadership of the Chairman and the CEO, and the positive relationship between the Board and senior management team. The review highlighted the importance of having clarity on the overarching strategy and striking a balance between Board oversight and posing good challenges to Management. Constructive information flow, efficient boardroom information and strong secretarial support also contributed to the enhanced efficiency of the Board. It was also discussed by the Board on the need for reinforcement of capabilities in the areas of digital, community services and development at the Board level to further support the Company in its digital growth and CSV commitments.

The Board was satisfied with each of the Director’s level of performance, and that they had also met the performance criteria in the prescribed areas of assessments. The results of these assessments form the basis of the GNCC’s recommendations to the Board for the re-election of the Directors at the upcoming 39<sup>th</sup> AGM in April 2023.

### CORPORATE GOVERNANCE DEVELOPMENTS

The Committee oversees the Company’s compliance with the MCCG and receives regular updates to enable it to consider the appropriateness and maturity of various elements of our governance framework and to monitor any areas of non or qualified compliance. Areas of focus for the Committee during the year in this regard was the introduction of the Directors’ Fit and Proper Policy, as well as the revised Board Charter, Terms of Reference of the GNCC to include the adoption of the criteria under the said policy, which were subsequently approved by the Board.

Assisted by the Company Secretary, the Committee arranged training sessions for the Board covering topics such as ESG and the Nestlé Group Corporate Governance structure.

### DIRECTORS’ COMPENSATION

The Company’s Compensation Policy for the Board members is set to attract and retain highly qualified individuals to serve on the Board. The level of compensation reflects the time and effort required from the Directors in fulfilling their Board and Board Committees responsibilities. In order to ensure a proper level of independence, there is no variable compensation for the Non-Executive members of the Board.

The Executive Directors and the senior management team’s compensation are guided by the compensation framework of its ultimate holding company, Nestlé S.A.

The Company’s Compensation Policy which sets out the criteria to determine the Director’s compensation, include:

- the demands, complexity of activities and performance of the Group;
- the level of responsibilities, skills, expertise and experience required;
- industry benchmarks against similar companies;
- market practice; and
- the risk environment and ensuring that the compensation does not encourage excessive risk-taking.

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

The GNCC reviews the compensation package of the Non-Executive Directors and it periodically engaged third party consultant to conduct a remuneration benchmarking exercise for the Non-Executive Directors. The last external review was carried out by KPMG Management & Risk Consulting Sdn. Bhd. and presented to the GNCC for review prior to it being presented to the Board in February 2022 for its deliberation. The Board strives to ensure that the current remuneration for the Chairman and the Non-Executive Directors remain competitive, vis-à-vis, market and sectorial norms to attract and retain the right calibre team of Directors.

The GNCC 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 at the 39<sup>th</sup> AGM for the shareholders’ approval.

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

- 1 Fees for acting as a Director**  
 A fixed fee is allocated to each Non-Executive Director, a fee premium is allocated to the Chairman of the Board in view of the additional accountabilities and responsibilities assumed by the Chairman.
- 2 Fees for assuming additional responsibilities**  
 Additional fees are allocated to Non-Executive Directors who assumed more responsibilities via their appointments in the Board Committees. A fee premium is allocated to the Chairman of the respective Board Committees in view of their additional accountabilities and responsibilities.
- 3 Meeting attendance allowance**  
 An attendance allowance is provided to Non-Executive Directors to compensate for their personal expenses to attend the meetings of the Board and Board Committees.



## Corporate Governance Overview Statement Compensation

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

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

The breakdown of the Directors' compensation paid in 2022 is as follows:

Name	Emoluments			Total
	Fees <sup>(2)</sup>	Salary <sup>(3)</sup> & Benefits <sup>(4)</sup>		
	RM	RM	RM	RM
<b>RM, in Gross <sup>(1)</sup></b>				
YAM Tan Sri Dato' Seri Syed Anwar Jamalullail	445,000	-	74,000	519,000
Mr. Chin Kwai Fatt	148,870	-	18,000	166,870
Dato' Hamidah Naziadin	180,000	-	16,000	196,000
Datin Sri Azlin Arshad	185,000	-	18,000	203,000
YM Dr. Tunku Alina Raja Muhd. Alias (Appointed on 21 June 2021)	95,680	-	16,000	111,680
Juan Aranols	-	1,400,709	4,087,087	5,487,796
Syed Saiful Islam (Appointed on 1 August 2022)	-	365,000	530,307	895,307
Craig Connolly (Resigned on 1 August 2022)	-	525,899	1,363,004	1,888,903
Dato' Mohd Rafik Bin Shah Mohamad (Retired on 28 April 2021)	80,830	-	-	80,380
Dato' Dr. Nirmala Menon (Retired on 28 April 2021)	58,200	-	-	58,200
<b>TOTAL</b>	<b>1,193,580</b>	<b>2,291,608</b>	<b>6,122,398</b>	<b>9,607,586</b>

<sup>(1)</sup> Numbers are provided before tax.

<sup>(2)</sup> Fees paid to Non-Executive Directors.

<sup>(3)</sup> Salary paid to Executive Directors.

<sup>(4)</sup> 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.

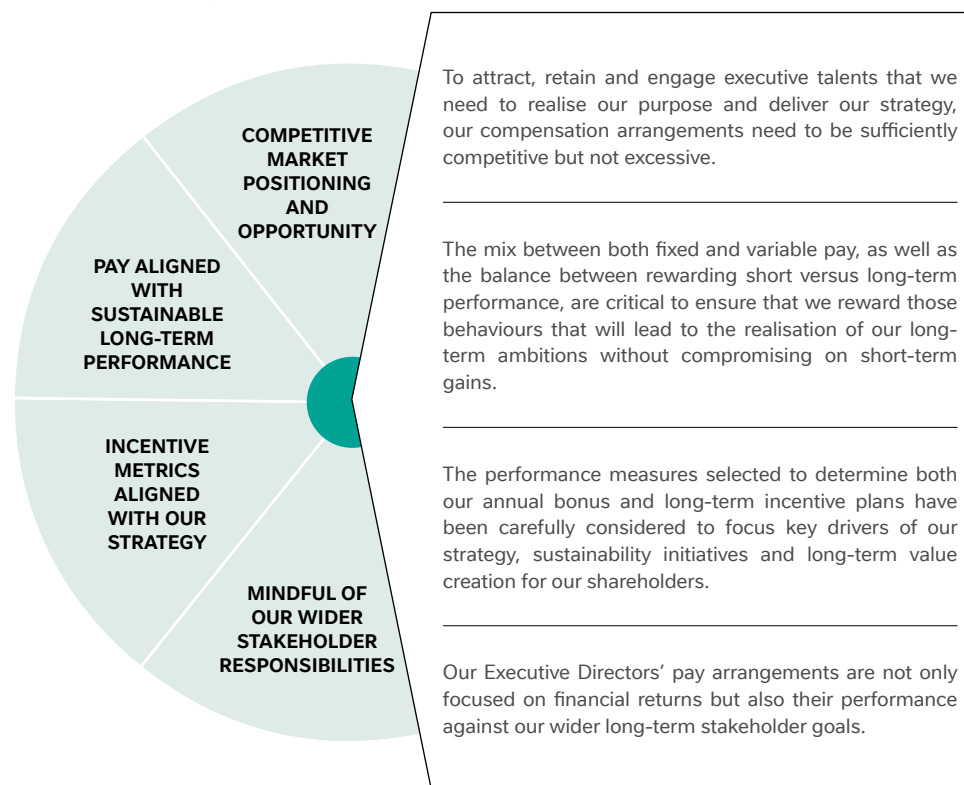
→ The Compensation Policy is available on the Company's website at [www.nestle.com.my](http://www.nestle.com.my)

### REMUNERATING HUMAN CAPITAL

The GNCC is responsible to assist the Board in reviewing, determining, and ensuring the implementation of the Compensation Policy. It has clear terms of reference and works with the Management and independent advisors, if any, to develop proposals and recommendations, whilst exercising independent judgement when making decisions. This process is considered to manage any potential conflicts of interest.

When considering the remuneration packages for the employees, the GNCC considers market data from fast-moving consumer goods (FMCG) companies of a similar size and complexity. It also receives information from the Group Human Resource department on pay and employment conditions consistent with the Group's aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces and to attract, engage and retain the very best talents from across all sectors. The GNCC is also mindful of the need to avoid inadvertently encouraging risky or irresponsible behaviour.

The GNCC considered the following principles when designing the Compensation Policy and took these into account in its design and implementation:



<p><b>Chairman</b></p> 	<p><b>MR. CHIN KWAI FATT</b></p> <p><b>Independent Non-Executive Director</b></p> <ul style="list-style-type: none"> <li>• Fellow Member of the Institute of Chartered Accountants in England and Wales</li> <li>• Member of the Malaysian Institute of Accountants</li> <li>• Member of the Malaysian Institute of Certified Public Accountants</li> <li>• Bachelor of Science (Economics), University of Hull, United Kingdom</li> </ul>	<p><b>Member</b></p> 	<p><b>YAM TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL</b></p> <p><b>Non-Independent Non-Executive Director</b></p> <ul style="list-style-type: none"> <li>• Chartered Accountant</li> <li>• Member of the Malaysian Institute of Accountants</li> <li>• Member of the Certified Practising Accountant (Australia)</li> <li>• Bachelor of Arts in Accounting, Macquarie University, Sydney, Australia</li> </ul>
		<p><b>Member</b></p> 	<p><b>DATIN SRI AZLIN ARSHAD</b></p> <p><b>Independent Non-Executive Director</b></p> <ul style="list-style-type: none"> <li>• Honours Degree in Accounting and Finance, University of Glamorgan (now known as University of South Wales)</li> </ul>

The Committee has been established by the Board primarily for the purpose of overseeing the accounting, financial reporting, internal control and risk management processes of the Company. As a Committee, we are responsible for assisting the Board's oversight of the quality and integrity of the Company's external financial reporting and statements, and the Company's accounting policies and practices.

#### PRINCIPLE RESPONSIBILITIES

- 1 Assists the Board in ensuring that the Group's financial system provides accurate and up-to-date information on its financial position and ensuring the integrity of financial and narrative reporting.
- 2 Ensures the effectiveness of the Group's internal control framework and the robustness of its risk management framework.
- 3 Assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the internal and external audit functions.
- 4 Reviews the Group's non-compliance complaints received through Speak Up and other avenues.

→| 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](http://www.nestle.com.my).



#### PRIORITIES FOR 2023

- Continued focus on financial performance, controls, processes, assurance and ESG disclosures.
- Working together with the GNCC for the succession planning of the new Committee member.



## Corporate Governance Overview Statement Audit Committee Report

### MEMBERSHIP OF THE COMMITTEE

The members of the Committee, each of whom are Non-Executive Directors, with a majority being independent, have been appointed to provide the wide range of financial and commercial experience needed to undertake its duties. Each member of the Committee brings an appropriate mix of extensive financial and commercial experience, combined with a thorough understanding of the Group's business. No alternate Director was appointed as a member of the Audit Committee.

The Chairman of the Committee is not the Chairman of the Board. Further details on the Committee members' skills, qualifications, experience and expertise are set out in pages 47 and 48 of the Annual Review Report.

### HOW THE COMMITTEE OPERATES

The Committee meets a minimum of four times a year, and more frequently as necessary, with a quorum established by the presence of the Committee Chairman and at least one Committee member who must be an Independent Director. Meetings are scheduled to coincide with our financial reporting cycle, with four regular meetings scheduled prior to our quarterly, half-year and annual results announcements. During the financial year ended 2022, the Committee met four times with all members in attendance at all meetings.

At each meeting, the Committee receives papers in advance from the Management on the Group's performance and financial results, and discusses any significant judgements and matters of a financial reporting nature arising since the last meeting. The Committee also considers reports on the activities of the audit, risk management and compliance functions, including the results of internal audits, reports from external auditors, risk management reviews, related party transactions and whistleblowing reports.

There is an annual cycle of items considered by the Committee covering its roles and responsibilities as defined in the Committee's Terms of Reference, which provides a framework for the Committee's work. The agenda cycle is reviewed annually to ensure that the Committee remains proactive and relevant, and to take into account any corporate governance and financial reporting developments. The Committee continuously reviews and updates its Terms of Reference with the last review carried out on 20 February 2023 and approved by the Board on 21 February 2023.

The CFO, the external auditors' partner in charge, the Head of Nestlé Internal Audit (NIA), the Head of Accounting & Consolidation, and the Risk Management & Control Manager, have a standing invite from the Committee Chairman to join all Committee meetings. The Committee's deliberations are reported by its Chairman at the next Board meeting and the approved minutes of each meeting are circulated to all members of the Board.

The Committee receives technical updates regularly, including on matters such as accounting standards and the audit and governance landscape, and members are able to request specific training as appropriate.

No member of the Committee has a connection with the current external auditors and no Director is involved in any deliberations or decisions with regard to matters that they have an interest in. The Head of NIA and the external auditors have direct access to the Chairman of the Committee who has held a number of meetings with the Head of NIA during the financial year outside the formal Committee meetings. The Chairman of the Committee also liaises with the CFO as and when necessary to ensure robust oversight and challenge in relation to financial control and risk management.

The Company Secretary acts as the Secretary of the Committee, who is in attendance at all the meetings and records the proceedings of the meetings. The Committee has access to any form of independent professional advice and the services of the Company Secretary as and when required. All Committee meeting minutes, including meeting papers, on matters deliberated by the Committee in the discharge of its functions are properly documented. After its meeting, the Committee reports to the Board on matters falling within the Committee's Terms of Reference, including the recommendations of the Committee for the Board's consideration and approval.

### ENTERPRISE RISK MANAGEMENT

A key role of the Committee is to provide oversight and reassurance to the Board with regard to the integrity of the Company's procedures for the identification, assessment, management and reporting of risk. During the period under review, the Committee was particularly focused on the Company's evolving enterprise risk management. The Management has continuously strengthened its approach towards risk evolution and identification, prioritisation, monitoring the risk and its mitigation plans, and the Committee has ensured that the approach is robust, proportionate, and continues to facilitate a management culture of accountability and ownership in managing and mitigating risk effectively.

In fulfilling its remit, the Committee remained mindful that effective risk management is essential in executing the Company's strategy, achieving sustainable shareholder value, ensuring good governance and protecting the Company. The Committee is also committed to assist the Board in ensuring the adequacy and effectiveness of internal controls.

For further information on Risk Management and Internal Control, please refer to [pages 29 to 33](#) of this Report.

### RECURRENT RELATED PARTY TRANSACTION

The Committee reviewed the quarterly recurrent related party transactions to ensure these transactions were carried out within the mandate approved by shareholders and in compliance with the Listing Requirements.

During the financial year, to further validate its approach for recurrent related party transactions, under the direction of the Committee, the NIA carried out an annual review to ensure that the processes which the Group has in place are adequate for identifying, evaluating, reporting and monitoring of recurrent related party transactions, the transactions were made at arm's length basis and on terms not more favourable to the related parties than those generally available to the public, and are not to the detriment of the minority shareholders.

### ACQUISITION

During the financial year, the Committee has reviewed and deliberated on the Proposed Acquisition by Nestlé Products Sdn. Bhd., a wholly-owned subsidiary of the Company, of 100% equity in Wyeth Nutrition (Malaysia) Sdn. Bhd. (Wyeth Malaysia, from Wyeth (Hong Kong Holding Company Limited, before it being tabled to the Board for approval.

### COMMITTEE EVALUATION

The Committee undertakes an annual evaluation process to review its performance and effectiveness. Topics covered in the evaluation included the effectiveness and dynamics of the Committee, the Committee's oversight of key areas within its remit, the quality of papers and meeting discussions, and the relationships between the Committee and the Management. The overall performance of the Committee and its individual members were rated in the higher percentile.

With the encouragement from the Chairman of the Committee for open and honest input and discussion, the Committee has benefited from the expertise, the commitment and engagement of its members.



## ACTIVITIES OF THE COMMITTEE DURING THE YEAR

AREA OF FOCUS	MATTERS REVIEWED AND CONSIDERED
<b>Financial reporting</b>	<ul style="list-style-type: none"> <li>• Cumulative full year results for the financial year ended 31 December 2021.</li> <li>• Directors' Report and Audited Financial Accounts for the financial year ended 31 December 2021.</li> <li>• Quarterly Results.</li> <li>• Proposal of dividend payments and solvency of the Company before recommending for the Board's approval.</li> <li>• Financial results announcements before recommending for the Board's approval.</li> <li>• Recurrent Related Party Transactions (RRPT) of the Group.</li> </ul>
<b>Risk and internal control</b>	<ul style="list-style-type: none"> <li>• Enterprise Risk Management and its processes, potential major risks of the Group, the mitigating measures and updates.</li> <li>• Cyber security landscape and risks.</li> <li>• Regulatory landscape risks impacting the business.</li> <li>• Corruption risks and update on Anti-Corruption initiatives.</li> <li>• Report on major litigation, claims and/or issues with substantial financial impact (if any), and Distributor financing payment.</li> <li>• Overview on Enterprise Risk Management process.</li> <li>• Inter-company loan.</li> <li>• Distributors' credit risks and management.</li> <li>• NIA's report, recommendations and the responses from the Management Team.</li> <li>• Updates on the development of the Internal Audit Practices.</li> <li>• Nestlé Internal Audit Charter.</li> <li>• NIA's resource requirements, scope, adequacy and function.</li> <li>• Overall performance of the Head of NIA (in her absence) the NIA team and the individual members of the NIA team.</li> <li>• Movements of the NIA team members.</li> <li>• Audit Plan for 2023.</li> <li>• Report from the BEFC, including the current status of complaints received including through the whistleblowing system (Speak Up) and other avenues.</li> </ul>
<b>External audit</b>	<ul style="list-style-type: none"> <li>• External auditors' report and the responses from the Management Team.</li> <li>• Discussions with the external auditors on issues/matters arising from the audit (in the absence of the Management Team).</li> <li>• Audit Plan for the financial year ended 31 December 2022 by the external auditors, Ernst &amp; Young PLT (EY).</li> <li>• Guideline on provision of non-audit services by the external auditors.</li> </ul>
<b>Compliance, governance and other matters</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Regulatory and Compliance matters and training.</li> <li>• Tax updates.</li> <li>• Draft Circular to shareholders in relation to the Proposed Renewal of shareholders' Mandates for RRPT of a revenue or trading nature.</li> <li>• Discussion with Management on the outcome of Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditor for the year ended 31 December 2021 and to ensure the external auditor meets the criteria provided by Paragraph 15.21 of the Listing Requirements (in the absence of EY).</li> <li>• Recommendation for the appointment of EY as the Group's external auditors for the financial year ending 31 December 2022, to ensure the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements and maintain its independence.</li> <li>• Statement on Risk Management and Internal Control to be disclosed in the Annual Report.</li> <li>• Evaluation of the Audit Committee Assessment.</li> <li>• Terms of Reference of the Audit Committee.</li> <li>• Audit Committee Report to be disclosed in the Annual Report 2021.</li> <li>• Effectiveness of the Audit Committee meetings.</li> <li>• Audit Committee Agenda for 2022 and 2023.</li> <li>• Review the proposed acquisition of Wyeth Nutrition (Malaysia) Sdn. Bhd.</li> </ul>



## Corporate Governance Overview Statement Audit Committee Report

### THE NESTLÉ INTERNAL AUDIT DEPARTMENT

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

The main role of the 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 in [page 30](#) of this Report. The outcome of the reviews are objectively reported to the Management and to the Committee, prior to it being presented to the Board.

The review performed by the 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.

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

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

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

- conforms with the International Standards for Internal Audit; and
- 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 Loo Wai Leng, aged 45 years old. She has served the Group for more than 15 years in various functions within the Finance & Control function such as Corporate Finance & Control, Commercial Control, Credit Management, Human Resource Control, Business Control and Supply Chain Control, before moving to her current role in NIA in the middle of 2022.**

**She is a member of the Malaysia Institute of Accountants (MIA) and the Certified Practising Accountant (Australia). She holds a Degree of Bachelor of Business (Accountancy) from the Royal Melbourne Institute of Technology (RMIT), Australia.**

Her team consists of six qualified auditors with various professional qualifications which include amongst others, Bachelor of Mechanical Engineering, Bachelor of Chemical Engineering and members from the Association of Chartered Certified Accountants (ACCA).

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 2022 was RM1.5 million.

### THE WORKINGS OF NESTLÉ INTERNAL AUDIT

The NIA is required to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (i.e. 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

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### 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 auditors is formally assessed by the Committee on an annual basis. In addition, the Committee also reviews the external auditors' Annual Transparency Report. Based on its assessment of the external auditors' performance in the year under review, the Committee is satisfied that the external auditors are effective and have provided appropriate independent feedback to the senior management team.

EY 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 2022, in accordance with the requirements of all applicable regulations and professional standards. The external auditors are also not aware of any relationships or other matters that may reasonably be thought to affect 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, in line with the Audit Partner Rotation requirements issued by the MIA, the Committee does impose that the external auditors rotate the key audit partner every seven years.

EY has also provided written confirmation that it meets the relevant criteria prescribed by Paragraph 15.21 of the Listing Requirements.

The fees paid/payable to EY and its affiliates in the financial years ended 2021 and 2022 respectively are as follows:

	2021 (RM)	2022 (RM)
Audit remuneration	620,000	649,000
Non-audit services	276,391 <sup>(1)</sup>	311,855 <sup>(2)</sup>
<b>TOTAL</b>	<b>896,391</b>	<b>960,855</b>

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

<sup>(2)</sup> For the review of Statement on Risk Management and Internal Control, and indirect tax advisory services.

The Committee believes that it is important to maintain the objectivity and independence of the external auditors by minimising their involvement in projects of 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 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 Management, including discussion of regular papers prepared by Management and EY;
- regular discussions between the Committee and the external auditors (in the absence of Management), and between the Committee and Management (in the absence of EY) in order to discuss the external audit process;
- a review of the final audit result, noting key areas of auditors' judgement and the reasoning behind the conclusions reached;
- a review of the Annual Inspection Report issued by the Audit Oversight Board (AOB) established under Part 111A of the Securities Commission Malaysia Act 1993; and
- a review of the external auditors' Annual Transparency Report.

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



## Corporate Governance Overview Statement

## 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 and its Committee meetings, 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 28 April 2022 (the date of the last AGM) to 1 March 2023, are as follows:

Nature of transactions	Related Party	Related Transacting Parties	Actual Transacted
			Value from 28 April 2022 to 1 March 2023 RM'000
Purchase of raw materials, semi-finished and finished food products such as milk, cocoa, coffee beans, cereals, etc., and other services.	Nestlé S.A.	Nestlé Affiliated Companies (Seller)	1,439,407
Payment of royalties for use of trademarks for the sale of food products such as milk, cocoa, coffee, cereals, pasta, etc.	Nestlé S.A.	Nestlé Affiliated Companies (Trademark Owner)	271,191
Payment of information technology shared services for use and maintenance of information technology services, etc.	Nestlé S.A.	Nestlé Affiliated Companies (Service Provider)	41,220
Sale of food products such as instant noodles, chocolates, beverage, culinary, confectionery, etc.	Nestlé S.A.	Nestlé Affiliated Companies (Buyer)	1,144,214
Rendering of information technology, agency services and other shared services.	Nestlé S.A.	Nestlé Affiliated Companies (Buyer)	31,992
Payment of interests for Intra Group Loan	Nestlé S.A.	Nestlé Affiliated Companies (Loan Creditor)	10,426
Purchase of plant and equipment such as machineries and spare parts to support the manufacturing functions of the Group.	Nestlé S.A.	Nestlé Affiliated Companies (Seller)	10,925

## 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 2022, 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 2022. Save as disclosed in our Corporate Governance Report, which is available on our Company's website [www.nestle.com](http://www.nestle.com), we have complied with the main principles of the MCCG.

This Corporate Governance Overview Statement was presented and approved at the meeting of the Board on 8 March 2023.

On behalf of the Board

**YAM Tan Sri Dato' Seri Syed Anwar Jamalullail**

Chairman



# Statement on Risk Management and Internal Control

The Group maintains a system of risk oversight, risk management and internal control, over material business risks including financial reporting. Periodical review of its adequacy, effectiveness and integrity is under the responsibility of the Board and the Management. The system of internal control emphasises matters of governance, risk management, organisational, operational, financial strategy, regulatory and compliance control, cyber security and sustainability. This system is established by the Board and the Management to manage, as opposed to eliminate, the risks of non-compliance with the Group's policies and to fulfill the objectives, strategic priorities and integration of sustainability considerations in the operations 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 complex, dynamic, fast-paced, digital, and sophisticated business environment today, it is critical that we understand the link between risk, internal controls, strategy, value and sustainability. At Nestlé, this link is formalised through an alignment of our strategy, risk management and internal processes, which supports the fulfilment of our strategic priorities, thereby delivering value for all stakeholders. The Group's risk assessment strategy was part of the assessment requirement in ISO 9001:2015 Quality management systems, ISO 14001:2015 Environmental management systems, ISO 27001:2013 Information security management systems and ISO 45001:2018 Occupational health and safety management systems.

## BOARD OF DIRECTOR'S RESPONSIBILITIES

The Board and the Management 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, as well as 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 the weaknesses or to improve the assessment process;
- (iii) periodic reviews of the business's internal process and operations reported by the NIA, including action plans to address the identified control weaknesses status updates, and monitor in implementing its recommendations; and
- (iv) reports by the external auditors of any control issues identified during their audit-related and non-audit related work and the discussion with the external auditors of the scope of their respective reviews 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.

*(Please also see "Audit Committee Report" on pages 23 to 27 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:

- 01 The governance of risk;
- 02 Determination of the levels of risk tolerance;
- 03 Delegate the responsibility to Management to design, implement and monitor risk management;
- 04 Ensuring that risk assessments are performed continuously;
- 05 Ensuring that crisis management processes are in place to mitigate impact of unpredictable risk;
- 06 Ensuring continuous risk monitoring by Management;
- 07 Receiving assurance regarding the effectiveness of the risk management process; and
- 08 Ensuring there are processes in place enabling complete, relevant, accurate, timely and accessible risk disclosure to stakeholders

## 30 Statement on Risk Management and Internal Control

### OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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 the Group, the Risk Management Department collaborates with the Management in reviewing and ensuring that there is on-going monitoring of risks, assessing the adequacy and effectiveness of its related controls, as well as developing and implementing action plans to manage these risks at the acceptable level by the Management.

Enterprise Risk Management is how the Group facilitates and approaches the risk assessment by identifying, analysing, evaluating, treating, and reviewing mitigating controls of the action plans corresponding to the Group's strategy. These assessment reviews are to curb the identified or unidentified external or internal risks. In addition, the Group monitors the Key Risk Indicators in each quarter and works with the relevant stakeholders of the department on implementation of action plans.

Risk management is firmly embedded in the Group's key processes through its Risk Management Framework, in line with Principle B and Practice 10.1 and 10.2 of the MCCG that was issued in 2021. 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, practices and sustainability strategies are periodically reviewed, with the results thereof presented and 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. Continuous employee's awareness and understanding of the Group's approach to sustainability ("what we do and why we do it") is crucial to get their engagement and support to achieve the Group's target.

### NESTLÉ MALAYSIA INTERNAL AUDIT DEPARTMENT

The NIA is guided by its Audit Charter with the Head of Internal Audit reporting functionally to the Audit Committee and the Regional Audit Manager for Continental East and South Asia region and administratively to the CFO. NIA is an independent and objective assurance function guided by the philosophy of adding value to the Group and its stakeholders. NIA's 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. NIA provides the Audit Committee with an independent opinion on the processes,

risk exposures and systems of internal controls of the Group. In particular, the scope of activities includes the following areas of responsibilities:

- Reliability and integrity of financial and operational information;
- Safeguarding of assets;
- Effectiveness and efficiency of operations;
- Compliance with regulations, Company principles and guidelines;
- Ensuring there is an appropriate follow-up of audit recommendations; and
- Performing advisory services related to governance, risk management and control.

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

#### The Nestlé Internal Audit identifies its scopes of audit based on risk assessments performed on:

- A the inherent risk of each business unit/department; and
- B the complexity of the end to end process 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 NIA 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 Audit Committee meeting and thereafter an update to the Board.

A matrix which summarises the audit issues, root causes, specific actions, owners of issues, its priorities and status has been developed as a template and is accessible via a web-based application for easy access and as an 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's response to the Audit Committee. The Management's actions are reviewed and followed up periodically by the NIA and reported to the Audit Committee.

For the financial year ended 31 December 2022, NIA conducted seven (7) internal audits and two (2) reviews across corporate functions, business units and factories.

Additionally, the Nestlé S.A. Audit Department, also known as the Nestlé Internal Audit (Center), the internal auditing arm of 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 current situation, the business capacity has been adjusted in response to demand and to improve the efficiency of the processes, the focus on price and mix has intensified, the purchasing process for raw materials has been further streamlined and focus on the environmental sustainability has increased. Some of the key risks and mitigating actions are described below:

RISK	MITIGATING ACTIONS
<p><b>CYBERSECURITY ATTACKS</b></p> <p>Following the rapid evolution of technology in recent years, the threat landscape has evolved significantly and can lead to serious financial and/or reputational impact on the Group.</p>	<p>The Cyber Security Operations Center uses a combination of technology solutions and a strong set of processes to mitigate the evolving threat.</p> <p>The Group is ISO 27001 certified. Security controls have been implemented to identify cybersecurity risks based on the Nestlé Cyber Risk Framework.</p> <p>We continue to build a strong security culture through awareness programmes including Information Technology Security training and communication.</p>
<p><b>ENVIRONMENTAL CONCERNS</b></p> <p>As people grow increasingly aware of the impact of climate change and its effects are seen to be more salient in today's world, the concerns on the Group's environmental footprint becomes more pressing, including our impact on climate change, plastic pollution, water usage, etc.</p>	<p>Our goal is to be responsible stewards of natural resources. This means ensuring resources are available and managed sustainably.</p> <p>We continue our engagement on climate actions, aiming to halve our greenhouse gas emissions by 2030 and achieve net zero by 2050.</p> <p>We partner with like-minded stakeholders including both government bodies and private organisations to promote positive behavioral change.</p> <p>We are constantly working towards improving our water management (water efficiency and reuse) and regulatory compliance, as well as protecting natural capital and reducing the impact of our products through a clear focus on waste management and packaging transformation.</p>
<p><b>COMMODITY AND MATERIAL INFLATION</b></p> <p>Major fluctuations in prices of commodities and materials will have significant impact to the cost of our products.</p>	<p>The Nestlé S.A. Group has dedicated teams, both globally and locally to manage the sourcing of 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>
<p><b>FOREIGN CURRENCY EXCHANGE</b></p> <p>The Group is exposed to unpredictable fluctuations in foreign exchange rates against the local currency.</p>	<p>The Group has hedging policies in place to minimise the impact from foreign exchange fluctuations. Further Nestlé S.A. regional treasury center based in Singapore is also providing support to manage volatility.</p>
<p><b>FOOD SAFETY AND QUALITY</b></p> <p>As a food and beverage manufacturer, Quality and Food Safety Assurance is an utmost important principle for us as this risk may cause serious impact to the Group.</p>	<p>All manufacturing sites maintain Food Safety System Certification (FSSC 22000) to uphold the food safety of our products.</p> <p>To achieve flexibility in sourcing while ensuring high quality raw materials, Nestlé is committed to having all its suppliers certified against one of the Global Food Safety Initiative recognised certification programmes.</p>



## 32 Statement on Risk Management and Internal Control

RISK	MITIGATING ACTIONS
<p><b>HEALTH-RELATED CONCERNS</b></p> <p>With consumers growing increasingly aware and concerned about their health and way of life, this has led to 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 of 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 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>
<p><b>FRAUD AND CORRUPTION</b></p> <p>The Group faces fraud and corruption risk due to lack of compliance awareness, which may result in legal, financial and reputational repercussions.</p>	<p>The Group continues to create awareness through various compliance training programmes, risk assessment on anti-corruption and compliance-related issues.</p> <p>Furthermore, the Group has a whistleblowing hotline (Speak Up) in place for employees and third parties to lodge non-compliance complaints.</p>

**The potential impact of the major risks has been evaluated and mitigating actions are being put in place to manage these identified risks.**

### OTHER RISKS AND INTERNAL CONTROL PROCESSES

The overall governance structure framework 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 has been established through relevant charters/terms of reference and appropriate authority limits. Furthermore, authority limits and major group policies (health and safety, training and development, equality of opportunity, staff performance, sexual harassment, and serious misconduct) and the NCBP (available on <https://www.nestle.com.my/aboutus/business-principles>) have been disseminated and communicated to the Group's employees.

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

The 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 the Management to better encompass new solutions that are introduced into business processes. The result of it is included in the single control repository of the Nestlé S.A. Group.



A BEFC set up by the Management and chaired by the CEO meets periodically to review all complaints/allegations lodged via 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 [page 8](#) of this Corporate Governance & Financial Statement 2022. This committee ensures an investigation is conducted and, reviewed 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 NIA.

#### **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. Taking into consideration the assurances from the Management and inputs from the relevant assurance providers, and to the best of its knowledge, the Board is of the view that the system of risk management and internal control is satisfactory and adequate to safeguard shareholders' investments, customers' interest and the 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 for inclusion in the annual report of the Group for the financial year ended 31 December 2022. The external auditors have reported to the Board that nothing has come to their attention that causes 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 the 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 21 February 2023.



# Financial Performance

## KEY HIGHLIGHTS

- Delivered another year of resilient results with revenue of **RM6.7 billion**.

- Revenue grew by **16.2%**, supported by both domestic and export sales, which increased by **12.9%** and **29.3%** respectively.

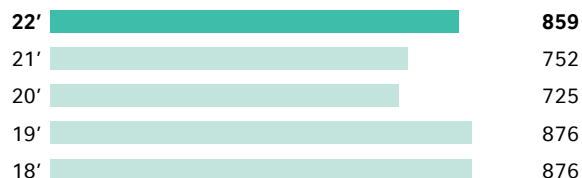
- The Group recorded higher Profit After Tax (PAT) at **RM620 million**, up by **8.9%**.

- Third interim dividend of **RM1.22 per share**, bringing total dividends for the year to **RM2.62 per share**.

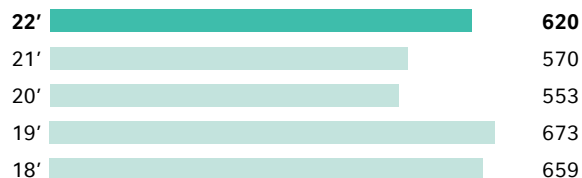
### REVENUE (RM MILLION)



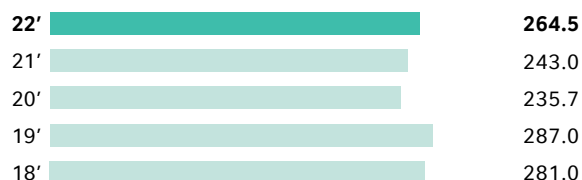
### PROFIT BEFORE TAX (RM MILLION)



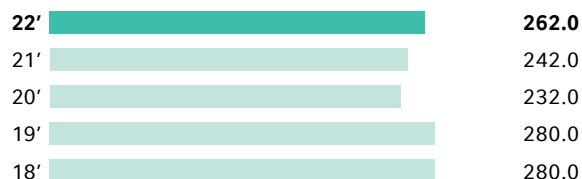
### PROFIT AFTER TAX (RM MILLION)



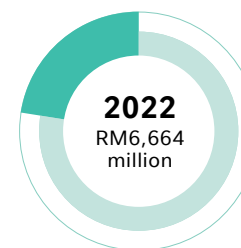
### EARNINGS PER SHARE (SEN)



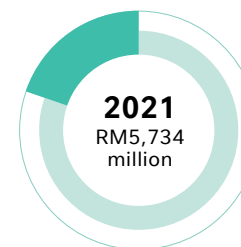
### NET DIVIDEND PER SHARE (SEN)



### TOTAL SALES (%)

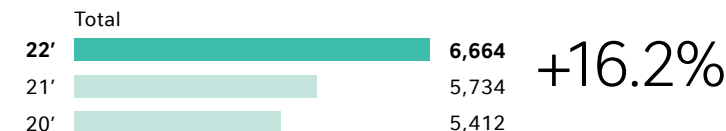
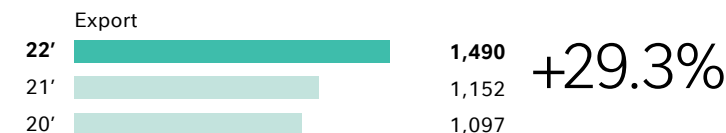
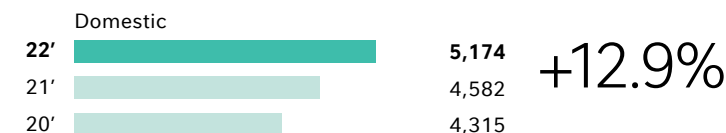


Export (RM million): **1,490** **22.4%**  
 Domestic (RM million): **5,174** **77.6%**



Export (RM million): **1,152** **20.1%**  
 Domestic (RM million): **4,582** **79.9%**

### GROWTH (RM MILLION)



## FINANCIAL CALENDAR

Dividends	First Interim	Second Interim	Third Interim	Annual General Meeting
<b>Announced</b>	28 July 2022	26 October 2022	21 February 2023	
<b>Record date</b>	9 September 2022	18 November 2022	19 April 2023	26 April 2023
<b>Paid / Payable</b>	6 October 2022	15 December 2022	17 May 2023	

## CAPITAL EXPENDITURE

RM MILLION

22'	312
21'	275
20'	295
19'	183
18'	146

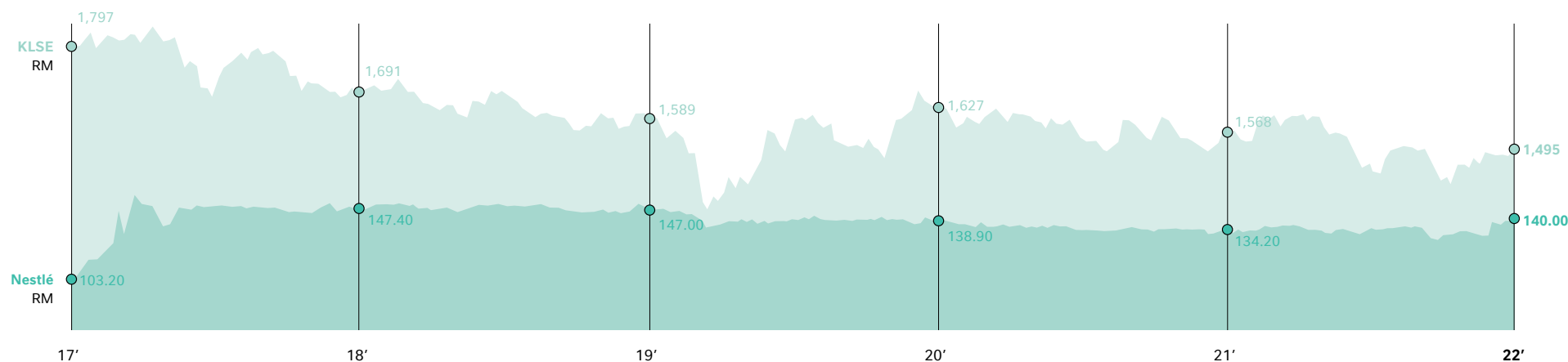
## MAJOR PROJECTS IN 2022:

- Batu Tiga - Expansion of MAGGI manufacturing facility
- Batu Tiga - New Goreng Noodle line
- Chembong Ice Cream - New auto mixing line for ice cream facility
- Chembong Ice Cream - Expansion of ice cream manufacturing facility
- Shah Alam - Upgrade of Waste Water Treatment Plant

## SHARE PERFORMANCE

	Calendar Year				
	2022	2021	2020	2019	2018
<b>During the year</b>					
Highest - RM	140.00	140.00	147.00	150.40	157.40
Lowest - RM	127.70	131.20	133.20	143.30	113.30
Last Trading Day - RM	140.00	134.20	138.90	147.00	147.40

## SHARE PRICES (BURSA MALAYSIA) - CLOSE



## 36 Financial Performance

## 5 YEARS' STATISTICS

- For the year ended 31 December 2022

	2022 RM'000	2021 RM'000	2020 RM'000	2019 RM'000	2018 RM'000	
<b>Results / Cash Flow</b>						
Revenue	6,664,145	5,733,816	5,412,180	5,518,076	5,519,045	
Profit before tax	859,477	751,817	724,769	875,725	875,890	
% of revenue	12.9%	13.1%	13.4%	15.9%	15.9%	
Profit after tax and minority interest	620,334	569,811	552,713	672,913	658,882	
% of revenue	9.3%	9.9%	10.2%	12.2%	11.9%	
Dividends paid & proposed (net)	614,390	567,490	544,040	656,600	656,600	
Depreciation, amortisation and impairment	206,519	195,454	182,259	177,300	165,354	
Cash flow (net profit + depreciation + amortisation + impairment)	826,853	765,265	734,972	850,213	824,236	
% of revenue	12.4%	13.3%	13.6%	15.4%	14.9%	
Capital expenditure	312,218	274,758	294,553	183,253	145,671	
<b>Statement of Financial Position</b>						
Non-current assets	1,954,793	1,844,893	1,781,489	1,653,525	1,631,866	
Current assets	1,599,218	1,139,938	1,079,882	1,073,013	1,215,416	
<b>Total assets</b>	<b>3,554,011</b>	<b>2,984,831</b>	<b>2,861,371</b>	<b>2,726,538</b>	<b>2,847,282</b>	
Total equity	626,316	582,697	557,136	664,924	654,333	
Non-current liabilities	668,724	473,706	487,406	406,864	410,870	
Current liabilities	2,258,971	1,928,428	1,816,829	1,654,750	1,782,079	
<b>Total equity and liabilities</b>	<b>3,554,011</b>	<b>2,984,831</b>	<b>2,861,371</b>	<b>2,726,538</b>	<b>2,847,282</b>	
<b>Per Share</b>						
Weighted average number of shares in issue	('000 units)	234,500	234,500	234,500	234,500	234,500
Market price <sup>1</sup>	(RM)	140.00	134.20	138.90	147.00	147.40
Earnings <sup>2</sup>	(sen)	264.53	242.99	235.70	286.96	280.97
Price earnings ratio		52.92	55.23	58.93	51.23	52.46
Dividend (net)	(sen)	262.00	242.00	232.00	280.00	280.00
Dividend yield	(%)	1.9	1.8	1.7	1.9	1.9
Dividend cover <sup>2</sup>	(no.)	1.0	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	2.67	2.48	2.38	2.84	2.79
Net tangible assets <sup>3</sup>	(RM)	2.41	2.21	2.10	2.55	2.50
<b>Personnel</b>	(no.)	<b>5,391</b>	<b>5,232</b>	<b>5,018</b>	<b>4,686</b>	<b>5,267</b>
<b>Factories</b>	(no.)	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>

## Notes:

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

<sup>2</sup> Earnings per share and dividend cover are based on profit after tax.

<sup>3</sup> Net tangible assets consists of issued share capital plus reserves less intangible assets.

# Financial Statements

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 2022.

## 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 RM'000	Company RM'000
Profit for the year	620,334	616,358
Profit attributable to owners of the parent	620,334	616,358

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 2021 were as follows:

	RM'000
In respect of the year ended 31 December 2021 as reported in the Directors' report of that year:	
Third tax exempt (single-tier) interim dividend of 102 sen per share, on 234,500,000 ordinary shares, declared on 22 February 2022 and paid on 19 May 2022	239,190
In respect of the year ended 31 December 2022:	
First tax exempt (single-tier) interim dividend of 70 sen per share, on 234,500,000 ordinary shares, declared on 28 July 2022 and paid on 6 October 2022	164,150
Second tax exempt (single-tier) interim dividend of 70 sen per share, on 234,500,000 ordinary shares, declared on 26 October 2022 and paid on 15 December 2022	164,150
	567,490

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 2022, of 122 sen per share on 234,500,000 ordinary shares, amounting to a dividend payable of RM286,090,000. 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 2023.

## 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  
Chin Kwai Fatt  
Dato' Hamidah Naziadin  
Datin Sri Azlin Arshad

Tunku Alina Raja Muhd Alias  
Juan Jose Aranols Campillo \*\*  
Syed Saiful Islam \*\* (Appointed on 1 August 2022)  
Craig Grant Connolly \*\* (Resigned on 1 August 2022)

\*\*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") and Restricted Stock Unit Plan ("RSUP") 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	1,210	1,210
Remuneration	7,176	142
Estimated money value of benefits-in-kind	1,036	-
Post-employment benefits	287	-
Share-based payments	2,471	-
Insurance effected to indemnify Directors*	19	19
	12,199	1,371

\*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 RM44,044,000.

## 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			
	1.1.2022/ At the date of appointment	Acquired	Sold	31.12.2022
<i>Direct interest:</i>				
<i>Ordinary shares of the ultimate holding company (Nestlé S.A.)</i>				
Juan Jose Aranols Campillo	13,732	3,495	4,000	13,227
Syed Saiful Islam	-	782	-	782

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 COMPANIES

The immediate and ultimate holding companies are Société des Produits Nestlé S.A. ("SPN") and Nestlé S.A. respectively, both of which are incorporated in Switzerland. The ultimate holding company is 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 there were no known bad debts 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) it necessary to write off any bad debts or the amount of the provision for doubtful debts 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.

**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	649	84

Signed on behalf of the Board in accordance with a resolution of the Directors dated 21 February 2023.

**Juan Jose Aranols Campillo**

**Syed Saiful Islam**

# STATEMENT BY DIRECTORS - Pursuant to Section 251(2) of the Companies Act 2016

We, Juan Jose Aranols Campillo and Syed Saiful Islam, 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 48 to 128](#) 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 2022 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 21 February 2023.

**Juan Jose Aranols Campillo**

**Syed Saiful Islam**



## STATUTORY DECLARATION - Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Syed Saiful Islam, 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 48 to 128](#) 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 Syed Saiful Islam at Petaling Jaya, Selangor Darul Ehsan  
on 21 February 2023

**Syed Saiful Islam**

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)

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## 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 2022 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 48 to 128](#).

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 2022, 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 are no key audit matters to communicate in our report on the financial statements of the Company. The key audit matter for the audit of the financial statements of the Group is described below. This matter was 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 this matter. For the 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 this matter. 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 matter 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 17 to the financial statements.

Total revenue of the Group for the year ended 31 December 2022 amounted to RM6.7 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.

##### 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.



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

### Information other than the financial statements and auditors' report thereon (contd.)

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.

### 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.





## Independent Auditors' Report

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

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

#### 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.
- 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.

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

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

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

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

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

Kuala Lumpur, Malaysia

21 February 2023

### Ng Kim Ling

No. 03236/04/2024 J

Chartered Accountant



## 48 STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	1,669,316	1,534,268	-	-
Right-of-use assets	5	184,583	208,232	-	-
Intangible assets	6	62,183	63,342	-	-
Investments in subsidiaries	7	-	-	188,022	188,022
Investment in an associate	8	6,288	5,949	3,000	3,000
Deferred tax assets	9	24,140	23,874	-	-
Trade and other receivables	11	8,283	9,228	-	-
		1,954,793	1,844,893	191,022	191,022
<b>Current assets</b>					
Inventories	10	1,115,083	744,987	-	-
Trade and other receivables	11	445,201	377,050	367,197	318,081
Current tax assets		30,763	11,003	-	-
Cash and bank balances	12	8,171	6,898	-	-
		1,599,218	1,139,938	367,197	318,081
<b>Total assets</b>		<b>3,554,011</b>	<b>2,984,831</b>	<b>558,219</b>	<b>509,103</b>
<b>Equity and liabilities</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	13	267,500	267,500	267,500	267,500
Reserves		(7,395)	(744)	-	-
Retained earnings		366,211	315,941	288,872	240,004
<b>Total equity</b>		<b>626,316</b>	<b>582,697</b>	<b>556,372</b>	<b>507,504</b>
<b>Current liabilities</b>					
Loans and borrowings	14	486,890	245,693	-	-
Lease liabilities	5	27,496	26,962	-	-
Trade and other payables	15	1,724,873	1,626,072	1,749	1,564
Current tax liabilities		19,712	29,701	98	35
		2,258,971	1,928,428	1,847	1,599

## Statements of Financial Position

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As at 31 December 2022

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Non-current liabilities</b>					
Loans and borrowings	14	300,000	100,000	-	-
Lease liabilities	5	120,036	141,351	-	-
Employee benefits	16	84,267	89,859	-	-
Deferred tax liabilities	9	164,421	142,496	-	-
		<b>668,724</b>	473,706	-	-
<b>Total liabilities</b>		<b>2,927,695</b>	2,402,134	<b>1,847</b>	1,599
<b>Total equity and liabilities</b>		<b>3,554,011</b>	2,984,831	<b>558,219</b>	509,103

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 2022

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue	17	6,664,145	5,733,816	617,805	568,990
Cost of sales		(4,603,260)	(3,775,581)	-	-
<b>Gross profit</b>		<b>2,060,885</b>	<b>1,958,235</b>	<b>617,805</b>	<b>568,990</b>
Other income		-	3,696	-	-
Selling and distribution expenses		(936,012)	(906,221)	-	-
Administrative expenses		(194,024)	(185,983)	(2,485)	(2,546)
Other expenses		(28,175)	(84,119)	(261)	-
Reversal of impairment loss on trade receivables		257	504	-	-
<b>Operating profit</b>		<b>902,931</b>	<b>786,112</b>	<b>615,059</b>	<b>566,444</b>
Finance income		721	828	1,708	1,437
Finance costs		(44,994)	(35,848)	-	-
<b>Net finance (costs)/income</b>		<b>(44,273)</b>	<b>(35,020)</b>	<b>1,708</b>	<b>1,437</b>
Share of profit of an equity-accounted associate, net of tax		819	725	-	-
<b>Profit before tax</b>	18	<b>859,477</b>	<b>751,817</b>	<b>616,767</b>	<b>567,881</b>
Income tax expense	21	(239,143)	(182,006)	(409)	(344)
<b>Profit for the year</b>		<b>620,334</b>	<b>569,811</b>	<b>616,358</b>	<b>567,537</b>
<b>Other comprehensive expense, net of tax:</b>					
<b>Item that may be reclassified to profit or loss in subsequent periods</b>					
Net (loss)/gain on cash flow hedges		(6,651)	2,790	-	-
<b>Item that will not be reclassified to profit or loss in subsequent periods</b>					
Remeasurement loss on defined benefit liability		(2,574)	(3,000)	-	-
<b>Other comprehensive expense for the year, net of tax</b>	22	<b>(9,225)</b>	<b>(210)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>611,109</b>	<b>569,601</b>	<b>616,358</b>	<b>567,537</b>
Profit attributable to owners of the parent		620,334	569,811	616,358	567,537
Total comprehensive income attributable to owners of the parent		611,109	569,601	616,358	567,537
<b>Earnings per share attributable to owners of the parent (sen)</b>					
- Basic	23	265	243		

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

# STATEMENTS OF CHANGES IN EQUITY

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For the year ended 31 December 2022

Group	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	
<b>At 1 January 2022</b>		<b>267,500</b>	<b>(744)</b>	<b>315,941</b>	<b>582,697</b>
Cash flow hedge		-	(6,651)	-	(6,651)
Remeasurement of defined benefit liability		-	-	(2,574)	(2,574)
Other comprehensive expense for the year		-	(6,651)	(2,574)	(9,225)
Profit for the year		-	-	620,334	620,334
<b>Total comprehensive (expense)/income for the year</b>		-	<b>(6,651)</b>	<b>617,760</b>	<b>611,109</b>
Dividends to owners	24	-	-	(567,490)	(567,490)
<b>Total transactions with owners</b>		-	-	<b>(567,490)</b>	<b>(567,490)</b>
<b>At 31 December 2022</b>		<b>267,500</b>	<b>(7,395)</b>	<b>366,211</b>	<b>626,316</b>
<b>At 1 January 2021</b>		267,500	(3,534)	293,170	557,136
Cash flow hedge		-	2,790	-	2,790
Remeasurement of defined benefit liability		-	-	(3,000)	(3,000)
Other comprehensive income/(expense) for the year		-	2,790	(3,000)	(210)
Profit for the year		-	-	569,811	569,811
<b>Total comprehensive income for the year</b>		-	<b>2,790</b>	<b>566,811</b>	<b>569,601</b>
Dividends to owners	24	-	-	(544,040)	(544,040)
<b>Total transactions with owners</b>		-	-	<b>(544,040)</b>	<b>(544,040)</b>
<b>At 31 December 2021</b>		<b>267,500</b>	<b>(744)</b>	<b>315,941</b>	<b>582,697</b>

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 2022

Company	Note	Non-distributable Share capital RM'000	Distributable Retained earnings RM'000	Total equity RM'000
<b>At 1 January 2022</b>		<b>267,500</b>	<b>240,004</b>	<b>507,504</b>
Profit and total comprehensive income for the year		-	<b>616,358</b>	<b>616,358</b>
Dividends to owners, representing total transactions with owners	24	-	<b>(567,490)</b>	<b>(567,490)</b>
<b>At 31 December 2022</b>		<b>267,500</b>	<b>288,872</b>	<b>556,372</b>
<b>At 1 January 2021</b>		267,500	216,507	484,007
Profit and total comprehensive income for the year		-	567,537	567,537
Dividends to owners, representing total transactions with owners	24	-	(544,040)	(544,040)
<b>At 31 December 2021</b>		267,500	240,004	507,504

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



# STATEMENTS OF CASH FLOWS

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For the year ended 31 December 2022

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Cash flows from operating activities</b>					
Profit before tax		<b>859,477</b>	751,817	<b>616,767</b>	567,881
<i>Adjustments for:</i>					
Property, plant and equipment:					
- depreciation	4	<b>165,087</b>	157,991	-	-
- loss/(gain) on disposal	18	<b>655</b>	(3,696)	-	-
- impairment loss	4	<b>8,100</b>	150	-	-
- written off	18	<b>1,971</b>	2,675	-	-
Right-of-use assets:					
- depreciation	5	<b>32,173</b>	34,993	-	-
- impairment loss	5	-	1,162	-	-
Intangible assets:					
- amortisation	6	<b>1,159</b>	1,158	-	-
Dividend income	17	-	-	<b>(617,805)</b>	(568,990)
Expenses related to defined benefit plans	19	<b>5,724</b>	4,827	-	-
Finance costs		<b>44,994</b>	35,848	-	-
Finance income		<b>(721)</b>	(828)	<b>(1,708)</b>	(1,437)
Net write-down of slow moving inventories	18	<b>2,665</b>	6,137	-	-
Net unrealised foreign exchange differences	18	<b>(2,337)</b>	(1,480)	-	-
Share-based payment expense	19	<b>6,493</b>	12,105	-	-
Share of profit of an equity-accounted associate, net of tax	8	<b>(819)</b>	(725)	-	-
Trade receivables:					
- net reversal of impairment loss	18	<b>(257)</b>	(504)	-	-
- written off	18	-	515	-	-
Operating cash flows before changes in working capital		<b>1,124,364</b>	1,002,145	<b>(2,746)</b>	(2,546)
Changes in working capital:					
Inventories		<b>(372,761)</b>	(153,854)	-	-
Trade and other payables		<b>94,643</b>	138,950	<b>185</b>	78
Trade and other receivables		<b>(75,699)</b>	98,802	<b>(391)</b>	1,039
<b>Cash flows from/(used in) operations</b>		<b>770,547</b>	1,086,043	<b>(2,952)</b>	(1,429)
Dividends received from subsidiaries		-	-	<b>568,600</b>	544,040
Retirement benefits paid	16	<b>(14,703)</b>	(9,508)	-	-
Income tax paid		<b>(244,319)</b>	(189,028)	<b>(346)</b>	(398)
<b>Net cash flows generated from operating activities</b>		<b>511,525</b>	887,507	<b>565,302</b>	542,213

## Statements of Cash Flows

For the year ended 31 December 2022

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	4	(312,218)	(274,758)	-	-
Dividends received from associate		480	390	480	390
Finance income received		721	828	1,708	1,437
Proceeds from disposal of property, plant and equipment		1,357	7,213	-	-
<b>Net cash flows (used in)/from investing activities</b>		<b>(309,660)</b>	<b>(266,327)</b>	<b>2,188</b>	<b>1,827</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(567,490)	(544,040)	(567,490)	(544,040)
Finance costs paid		(44,994)	(35,848)	-	-
Payment of lease liabilities		(29,305)	(31,745)	-	-
Proceeds from borrowings		265,000	15,000	-	-
<b>Net cash flows used in financing activities</b>		<b>(376,789)</b>	<b>(596,633)</b>	<b>(567,490)</b>	<b>(544,040)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(174,924)</b>	<b>24,547</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>(3,795)</b>	<b>(28,342)</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	12	<b>(178,719)</b>	<b>(3,795)</b>	<b>-</b>	<b>-</b>

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

Group	Note	Loan from a related company RM'000	Revolving credit - unsecured RM'000	Lease liabilities RM'000	Total RM'000
<b>At 1 January 2022</b>		<b>100,000</b>	<b>235,000</b>	<b>168,313</b>	<b>503,313</b>
Net changes from financing cash flows		200,000	65,000	(29,305)	235,695
Addition of lease contracts	5	-	-	8,524	8,524
<b>At 31 December 2022</b>		<b>300,000</b>	<b>300,000</b>	<b>147,532</b>	<b>747,532</b>
<b>At 1 January 2021</b>		100,000	220,000	193,909	513,909
Net changes from financing cash flows		-	15,000	(31,745)	(16,745)
Addition, modification and termination of lease contracts	5	-	-	6,149	6,149
<b>At 31 December 2021</b>		<b>100,000</b>	<b>235,000</b>	<b>168,313</b>	<b>503,313</b>

The accompanying accounting policies and explanatory notes form an integral part of 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 Level 22, 1 Powerhouse, No. 1, Persiaran Bandar Utama, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan.

The immediate and ultimate holding companies are Société des Produits Nestlé S.A. ("SPN") and Nestlé S.A. respectively, both of which are incorporated in Switzerland. The ultimate holding company is listed on the Swiss Stock Exchange ("SIX").

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 21 February 2023.

## 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.



## 56 Notes to the Financial Statements

## 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 2022, the Group and the Company adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2022.

Description	Effective for annual periods beginning on or after
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

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
MFRS 17: Insurance Contracts	1 January 2023
Amendments to MFRS 17: Insurance Contracts Initial Application of MFRS 17 and MFRS 9 - Comparative Information	1 January 2023
Amendments to MFRS 108: Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 101 and MFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.3 Standards issued but not yet effective (contd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to MFRS 16: Lease Liability is a Sale and Leaseback	1 January 2024
Amendments to MFRS 101: Non-current Liabilities with Covenants	1 January 2024
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 standard and amendments are not expected to have a material impact on the financial statements in the period of initial application.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and of its subsidiaries as at 31 December 2022. 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.4 Basis of consolidation (contd.)

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.

### 2.5 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.5 Business combinations and goodwill (contd.)

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.

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 are accounted for at cost less impairment losses. On disposal of such investments, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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").

#### (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 statements 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 recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised 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 *Revenue from Contracts with Customers*.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.9 Financial instruments (contd.)

#### (a) Financial assets (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.

##### (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.

## 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 (contd.)

Financial assets at fair value through profit or loss are carried in the statements 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 non-financial 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").

## 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.

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.

## 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.)

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 Notes 14 and 15.

##### 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.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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; and
- 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.

#### 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.10 Derivative financial instruments and hedging activities (contd.)

#### Cash flow hedge (contd.)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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
Information system	5 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.

#### (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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.12 Leases (contd.)

#### Group as lessee (contd.)

##### (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.

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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 statements 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 post-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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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.

#### (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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.17 Employee benefits (contd.)

#### (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") and Restricted Stock Unit Plan ("RSUP")*

Certain employees of the Group are entitled to PSUP and RSUP that give the right to Nestlé S.A. shares. The fair value of the PSUP and RSUP 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.

### 2.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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.

The Group and the Company classify all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 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.

- (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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 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 Finance costs

Finance costs comprise the interest expense on financial debt (including leases) and other expense such as exchange differences on financial debt and results on related foreign currency hedging instruments. Certain borrowing costs are capitalised as explained under Note 2.21.

### 2.23 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.)

### 2.23 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.24 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 25, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.25 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.

### 2.26 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.)

### 2.26 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.

### 2.27 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and of the Company after deducting all of their liabilities. Ordinary shares are equity instruments.

The attributable incremental transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Dividends on ordinary shares are recognised in equity in the period in which they are declared.



### 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 a provision 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 provision 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

Group 2022	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
<b>Cost</b>							
At 1 January 2022		654,865	2,458,829	20,270	133,841	212,249	3,480,054
Additions		32,797	115,387	4,398	12,239	147,397	312,218
Disposals		(31)	(7,437)	(3,610)	(2,098)	-	(13,176)
Written off		(922)	(25,228)	-	(1,397)	-	(27,547)
Transfer in/(out)		21,253	68,088	-	1,813	(91,154)	-
At 31 December 2022		707,962	2,609,639	21,058	144,398	268,492	3,751,549
<b>Accumulated depreciation and impairment</b>							
At 1 January 2022		242,312	1,585,168	12,198	106,108	-	1,945,786
Charge for the year	18	19,187	130,435	2,692	12,773	-	165,087
Impairment loss	18	1,121	6,979	-	-	-	8,100
Disposals		(9)	(6,182)	(2,913)	(2,060)	-	(11,164)
Written off		(276)	(23,930)	-	(1,370)	-	(25,576)
At 31 December 2022		262,335	1,692,470	11,977	115,451	-	2,082,233
<b>Analysed as:</b>							
Accumulated depreciation		252,972	1,650,876	11,977	114,795	-	2,030,620
Accumulated impairment loss		9,363	41,594	-	656	-	51,613
		262,335	1,692,470	11,977	115,451	-	2,082,233
<b>Net carrying amount</b>		<b>445,627</b>	<b>917,169</b>	<b>9,081</b>	<b>28,947</b>	<b>268,492</b>	<b>1,669,316</b>

## 4. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Group 2021	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
<b>Cost</b>							
At 1 January 2021		607,064	2,271,676	20,204	125,356	254,745	3,279,045
Additions		17,602	129,094	3,831	7,788	116,443	274,758
Disposals		(180)	(18,152)	(3,765)	(948)	-	(23,045)
Written off		(2,098)	(46,241)	-	(2,362)	(3)	(50,704)
Transfer in/(out)		32,477	122,452	-	4,007	(158,936)	-
At 31 December 2021		654,865	2,458,829	20,270	133,841	212,249	3,480,054
<b>Accumulated depreciation and impairment</b>							
At 1 January 2021		224,644	1,522,256	12,626	95,676	-	1,855,202
Charge for the year	18	18,639	122,973	2,822	13,557	-	157,991
Impairment loss	18	-	150	-	-	-	150
Disposals		(149)	(15,356)	(3,250)	(773)	-	(19,528)
Written off		(822)	(44,855)	-	(2,352)	-	(48,029)
At 31 December 2021		242,312	1,585,168	12,198	106,108	-	1,945,786
<b>Analysed as:</b>							
Accumulated depreciation		234,070	1,550,553	12,198	105,452	-	1,902,273
Accumulated impairment loss		8,242	34,615	-	656	-	43,513
		242,312	1,585,168	12,198	106,108	-	1,945,786
<b>Net carrying amount</b>		412,553	873,661	8,072	27,733	212,249	1,534,268

**Impairment loss**

During the year, the Group has recognised an impairment loss of RM8,100,000 (2021: RM150,000) in respect of plant and equipment based on the recoverable amount of the assets as a result of optimisation plans for production facilities.



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## 5. LEASES

The Group leases its office space, distribution centre, retail stores, warehouse, tools and equipment and information systems. The leases of office space and distribution centre typically run for a period of ten years and retail stores and warehouse for two 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:

Group 2022	Note	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Information systems RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2022		69,958	211,485	37,969	2,867	322,279
Additions		-	5,872	2,652	-	8,524
Expiration of lease contracts		-	(21,430)	(4,758)	-	(26,188)
At 31 December 2022		69,958	195,927	35,863	2,867	304,615
<b>Accumulated depreciation</b>						
At 1 January 2022		16,894	67,714	29,087	352	114,047
Charge for the year	18	1,148	24,566	5,887	572	32,173
Expiration of lease contracts		-	(21,430)	(4,758)	-	(26,188)
At 31 December 2022		18,042	70,850	30,216	924	120,032
<b>Net carrying amount</b>		<b>51,916</b>	<b>125,077</b>	<b>5,647</b>	<b>1,943</b>	<b>184,583</b>

## 5. LEASES (CONTD.)

Group 2021	Note	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Information systems RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2021		69,958	304,846	37,733	-	412,537
Additions		-	2,732	541	2,867	6,140
Termination of lease contracts		-	(96,216)	(305)	-	(96,521)
Modification of lease contracts		-	123	-	-	123
At 31 December 2021		69,958	211,485	37,969	2,867	322,279
<b>Accumulated depreciation and impairment</b>						
At 1 January 2021		15,746	136,136	22,417	-	174,299
Charge for the year	18	1,148	26,632	6,861	352	34,993
Termination of lease contracts		-	(96,216)	(191)	-	(96,407)
Impairment loss	18	-	1,162	-	-	1,162
At 31 December 2021		16,894	67,714	29,087	352	114,047
<b>Net carrying amount</b>		<b>53,064</b>	<b>143,771</b>	<b>8,882</b>	<b>2,515</b>	<b>208,232</b>

**Impairment loss**

During the year, the Group has recognised an impairment loss of nil (2021: RM1,162,000) in respect of buildings based on the recoverable amount of the assets.

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## 5. LEASES (CONTD.)

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

	Note	Group	
		2022 RM'000	2021 RM'000
<b>At 1 January</b>		<b>168,313</b>	193,909
Additions		<b>8,524</b>	6,140
Modification of lease contracts		-	123
Termination of lease contracts		-	(114)
Accretion of interest	18	<b>5,897</b>	6,840
Payments		<b>(35,202)</b>	(38,585)
<b>At 31 December</b>		<b>147,532</b>	168,313
<b>Current</b>		<b>27,496</b>	26,962
<b>Non-current</b>		<b>120,036</b>	141,351

The maturity analysis of lease liabilities are disclosed in Note 27(b) to the financial statements.

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

	Note	Group	
		2022 RM'000	2021 RM'000
Depreciation of right-of-use assets	18	<b>32,173</b>	34,993
Finance cost of lease liabilities	18	<b>5,897</b>	6,840
Expenses relating to short-term leases	18	<b>54,203</b>	35,072
Expenses relating to leases of low-value assets	18	<b>434</b>	276
<b>Total amount recognised in profit or loss</b>		<b>92,707</b>	77,181

The Group had total cash outflows for leases of RM89,839,000 (2021: RM73,933,000). The Group also had non-cash additions (including modifications) to right-of-use assets and lease liabilities of RM8,524,000 (2021: RM6,263,000) and RM8,524,000 (2021:RM6,263,000) respectively. The Group does not have future cash outflows relating to leases that have not yet commenced as at 31 December 2022 (2021: nil).

## 5. LEASES (CONTD.)

	Group	
	2022 RM'000	2021 RM'000
<b>Cash outflows for leases as a lessee</b>		
<b>Included in net cash from operating activities:</b>		
Payment relating to short-term leases	54,203	35,072
Payment relating to leases of low-value assets	434	276
	<b>54,637</b>	<b>35,348</b>
<b>Included in net cash from financing activities:</b>		
Finance cost of lease liabilities	5,897	6,840
Payment of lease liabilities	29,305	31,745
<b>Total cash outflows for leases</b>	<b>89,839</b>	<b>73,933</b>

## 6. INTANGIBLE ASSETS

Group 2022	Note	Goodwill RM'000	Development costs RM'000	Total RM'000
<b>Cost</b>				
At 1 January 2022/31 December 2022		61,024	7,859	68,883
<b>Accumulated depreciation</b>				
At 1 January 2022		-	5,541	5,541
Amortisation for the year	18	-	1,159	1,159
At 31 December 2022		-	6,700	6,700
<b>Net carrying amount</b>		<b>61,024</b>	<b>1,159</b>	<b>62,183</b>

## 6. INTANGIBLE ASSETS (CONTD.)

Group 2021	Note	Goodwill RM'000	Development costs RM'000	Total RM'000
<b>Cost</b>				
At 1 January 2021/31 December 2021		61,024	7,859	68,883
<b>Accumulated depreciation</b>				
At 1 January 2021		-	4,383	4,383
Amortisation for the year	18	-	1,158	1,158
At 31 December 2021		-	5,541	5,541
<b>Net carrying amount</b>		<b>61,024</b>	<b>2,318</b>	<b>63,342</b>

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 system.

**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 6.2% to 10.5% per annum (2021: 8.0% to 11.5% per annum).
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 2.5% per annum (2021: 2% per annum).
- A discount rate of 8.3% (2021: 6.9%) 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.

## 7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2022 RM'000	2021 RM'000
Unquoted shares at cost	<b>188,022</b>	188,022

Details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Proportion of ownership interest	
			2022 %	2021 %
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	<b>100</b>	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	<b>100</b>	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	<b>100</b>	100

## 8. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Unquoted shares at cost	<b>3,000</b>	3,000	<b>3,000</b>	3,000
Share of post-acquisition reserves	<b>3,288</b>	2,949	-	-
	<b>6,288</b>	5,949	<b>3,000</b>	3,000

Details of the associate are as follows:

Name of associate	Country of incorporation	Principal activities	Proportion of ownership interest	
			2022 %	2021 %
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of canned beverages	<b>20</b>	20

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## 8. INVESTMENT IN AN ASSOCIATE (CONTD.)

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

	Group	
	2022 RM'000	2021 RM'000
<b>Assets and liabilities</b>		
Non-current assets	33,594	34,170
Current assets	68,595	55,286
Non-current liabilities	(5,136)	(4,647)
Current liabilities	(65,615)	(55,064)
Net assets	31,438	29,745
Group's share in equity	6,288	5,949
<b>Results</b>		
Revenue	340,004	255,360
Profit for the year	4,093	3,627
Group's share of profit for the year	819	725

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

	Group	
	2022 RM'000	2021 RM'000
Net assets of the associate as at 1 January	29,745	28,068
Add: Profit for the year	4,093	3,627
Less: Dividends paid for the year	(2,400)	(1,950)
Net assets of the associate as at 31 December	31,438	29,745
Group's share of net assets	6,288	5,949

## 9. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Property, plant and equipment	-	-	(201,955)	(182,345)	(201,955)	(182,345)
Right-of-use assets	-	-	(31,548)	(37,120)	(31,548)	(37,120)
Lease liabilities	36,056	40,679	-	-	36,056	40,679
Employee benefit plans	26,759	25,946	-	-	26,759	25,946
Provisions	19,141	25,838	-	-	19,141	25,838
Hedging reserve	2,335	234	-	-	2,335	234
Unutilised tax incentives	8,931	8,146	-	-	8,931	8,146
	<b>93,222</b>	<b>100,843</b>	<b>(233,503)</b>	<b>(219,465)</b>	<b>(140,281)</b>	<b>(118,622)</b>
Set off of tax	(69,082)	(76,969)	69,082	76,969	-	-
	<b>24,140</b>	<b>23,874</b>	<b>(164,421)</b>	<b>(142,496)</b>	<b>(140,281)</b>	<b>(118,622)</b>

Movement in temporary differences during the year:

Group	Recognised in other comprehensive income			Recognised in other comprehensive income			
	At 1.1.2021 RM'000	Recognised in profit or loss (Note 21) RM'000	Recognised in other comprehensive income (Note 22) RM'000	At 31.12.2021/ 1.1.2022 RM'000	Recognised in profit or loss (Note 21) RM'000	Recognised in other comprehensive income (Note 22) RM'000	At 31.12.2022 RM'000
Property, plant and equipment	(156,937)	(25,408)	-	(182,345)	(19,610)	-	(201,955)
Right-of-use assets	(44,166)	7,046	-	(37,120)	5,572	-	(31,548)
Lease liabilities	47,141	(6,462)	-	40,679	(4,623)	-	36,056
Employee benefit plans	24,998	-	948	25,946	-	813	26,759
Provisions	30,119	(4,281)	-	25,838	(6,697)	-	19,141
Hedging reserve	1,115	-	(881)	234	-	2,101	2,335
Unutilised tax incentives	-	8,146	-	8,146	785	-	8,931
	(97,730)	(20,959)	67	(118,622)	(24,573)	2,914	(140,281)



## 10. INVENTORIES

	Group	
	2022 RM'000	2021 RM'000
<b>Cost</b>		
Raw and packaging materials	<b>589,253</b>	343,769
Work-in-progress	<b>68,518</b>	41,343
Finished goods	<b>402,243</b>	314,423
Spare parts	<b>55,069</b>	45,452
	<b>1,115,083</b>	744,987

During the year, the amount of inventories recognised as an expense in the statements of comprehensive income of the Group was RM4,167,457,000 (2021: RM3,419,515,000).

## 11. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Non-current</b>					
Loans to employees		<b>8,283</b>	9,228	-	-
<b>Current</b>					
<b>Trade</b>					
Third parties		<b>178,126</b>	152,396	-	-
Less: impairment loss		<b>(30,901)</b>	(31,158)	-	-
Amounts due from related companies	(a)	<b>147,225</b>	121,238	-	-
Amount due from an associate	(b)	<b>222,301</b>	186,530	-	-
Designated as hedging instruments	(b)	<b>1,819</b>	3,816	-	-
- Forward exchange contracts		<b>16,426</b>	3,549	-	-
		<b>387,771</b>	315,133	-	-

## 11. TRADE AND OTHER RECEIVABLES (CONTD.)

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Current</b>					
<b>Non-trade</b>					
Amounts due from subsidiaries	(c)	-	-	367,197	318,081
Other receivables and deposits	(d)	48,790	58,343	-	-
Prepayments		8,640	3,574	-	-
		57,430	61,917	367,197	318,081
		445,201	377,050	367,197	318,081
<b>Total trade and other receivables</b>		<b>453,484</b>	<b>386,278</b>	<b>367,197</b>	<b>318,081</b>

**(a) Trade receivables**

Credit risk management with respect to trade receivables is disclosed in Note 27(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.

**(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 RM78,172,000 (2021: RM77,781,000) which is subject to interest at 1.83% to 2.86% (2021: 1.81% to 1.86%) per annum.

**(d) Other receivables and deposits**

Included in other receivables and deposits of the Group are loans to employees of RM5,681,000 (2021: RM6,634,000) which are unsecured and interest free and down payment to vendors of RM9,145,000 (2021: RM13,843,000).

## 12. CASH AND BANK BALANCES

	Group	
	2022 RM'000	2021 RM'000
Cash and bank balances	8,171	6,898

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

	Note	Group	
		2022 RM'000	2021 RM'000
Cash and bank balances		8,171	6,898
Bank overdraft	14	(186,890)	(10,693)
		(178,719)	(3,795)

## 13. CAPITAL AND RESERVES

	Group and Company			
	Number of shares		Amount	
	2022 '000	2021 '000	2022 RM'000	2021 RM'000
<b>Issued and fully paid:</b>				
Ordinary shares				
- at 1 January/31 December	234,500	234,500	267,500	267,500

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

**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.

## 14. LOANS AND BORROWINGS

	Note	Group	
		2022 RM'000	2021 RM'000
<b>Non-current</b>			
Loan from a related company - unsecured		<b>300,000</b>	100,000
<b>Current</b>			
Bank overdraft - unsecured	12	<b>186,890</b>	10,693
Revolving credit - unsecured		<b>300,000</b>	235,000
		<b>486,890</b>	245,693

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

Loan from a related company is unsecured, bears interest which ranges between 3.34% and 4.39% (2021: 3.30% and 3.31%) per annum and repayable in 2026 (2021: 2023).

At 31 December 2022, the Group had available RM612,828,000 (2021: RM853,972,000) of undrawn committed borrowing facilities.

## 15. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Current</b>					
<b>Trade</b>					
Third parties	(a)	<b>1,168,584</b>	1,098,554	<b>458</b>	230
Amounts due to related companies	(b)	<b>229,958</b>	226,453	-	-
Amounts due to an associate	(b)	<b>24,560</b>	28,063	-	-
Designated as hedging instruments					
- Forward exchange contracts		<b>31,867</b>	4,527	-	-
		<b>1,454,969</b>	1,357,597	<b>458</b>	230
<b>Non-trade</b>					
Amounts due to related companies	(b)	<b>487</b>	136	-	-
Other payables		<b>116,999</b>	96,155	-	-
Accrued expenses		<b>112,548</b>	88,238	<b>1,291</b>	1,334
Provisions	(c)	<b>39,870</b>	83,946	-	-
		<b>269,904</b>	268,475	<b>1,291</b>	1,334
<b>Total trade and other payables</b>		<b>1,724,873</b>	1,626,072	<b>1,749</b>	1,564

**(a) Third parties**

The amount is non-interest bearing. Trade payables are normally settled on a 30 to 150 days (2021: 30 to 150 days) terms.

Included in trade payables is an amount of RM177,759,000 (2021: RM185,992,000) 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.

## 15. TRADE AND OTHER PAYABLES (CONTD.)

## (c) Provisions

Included in provisions is an amount of RM15,321,000 (2021: RM17,648,000) relating to PSUP and RSUP. Nestlé S.A. awarded PSUP and RSUP 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 Nestlé S.A.'s total shareholder return, growth of earnings per share and return on invested capital. The fair value of PSUP and RSUP 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 and RSUP during the year:

	2022 Number	2022 WAEP RM	2021 Number	2021 WAEP RM
<b>Outstanding at 1 January</b>	<b>46,581</b>	<b>580.94</b>	47,012	478.32
Granted during the year	<b>14,989</b>	<b>555.80</b>	19,143	426.94
Forfeited during the year	-	-	(191)	-
Exercised during the year	<b>(16,415)</b>	<b>568.78</b>	(19,383)	447.95
<b>Outstanding at 31 December</b>	<b>45,155</b>	<b>510.50</b>	46,581	580.94
Exerciseable at 31 December	-	-	-	-

The weighted average remaining contractual life for the PSUP and RSUP outstanding as at 31 December 2022 was 1.17 years (2021: 1.20 years).

The weighted average fair value of PSUP and RSUP granted during the year was RM510.50 (2021: RM580.94).

## 16. EMPLOYEE BENEFITS

## Retirement benefits

	Group	
	2022 RM'000	2021 RM'000
Net defined benefit liability/total employee benefit liabilities	<b>84,267</b>	89,859

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.

During the year, the Group has offered a conversion of monthly pension to one-off lump sums payment in order to reduce the liabilities, and this conversion was taken up by approximately 76% of the eligible active employees. The entire payments were made in December 2022.

**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 RM8,696,000 in contributions to defined benefit plans in 2023.

## 16. EMPLOYEE BENEFITS (CONTD.)

## Retirement benefits (contd.)

## Movement in net defined benefit liability

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

Group	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>At 1 January</b>	<b>92,002</b>	92,434	<b>(2,143)</b>	(1,842)	<b>89,859</b>	90,592
<b>Included in profit or loss</b>						
Interest cost	<b>4,804</b>	4,827	-	-	<b>4,804</b>	4,827
Past service cost - curtailments	<b>920</b>	-	-	-	<b>920</b>	-
	<b>5,724</b>	4,827	-	-	<b>5,724</b>	4,827
<b>Included in other comprehensive expense</b>						
Remeasurement loss:						
Actuarial loss arising from experience adjustments	<b>3,899</b>	4,249	-	-	<b>3,899</b>	4,249
Return on plan assets, excluding interest income	-	-	<b>(512)</b>	(301)	<b>(512)</b>	(301)
	<b>3,899</b>	4,249	<b>(512)</b>	(301)	<b>3,387</b>	3,948
<b>Others</b>						
Benefits paid	<b>(14,703)</b>	(9,508)	<b>14,703</b>	9,508	-	-
Contributions paid by employer	-	-	<b>(14,703)</b>	(9,508)	<b>(14,703)</b>	(9,508)
<b>At 31 December</b>	<b>86,922</b>	92,002	<b>(2,655)</b>	(2,143)	<b>84,267</b>	89,859



**16. EMPLOYEE BENEFITS (CONTD.)****Retirement benefits (contd.)****Plan assets**

Plan assets comprise:

	Group	
	2022	2021
	RM'000	RM'000
Cash and bank balances	1,252	964
Others	1,403	1,179
	<b>2,655</b>	<b>2,143</b>

**Defined benefit obligation****Actuarial assumptions**

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

	Group	
	2022	2021
Discount rate	5.10%	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 7.90 years (2021: 7.99 years).

## 16. 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.

Group	Impact on defined benefit obligation (Decrease )/Increase	
	2022 RM'000	2021 RM'000
Discount rate		
Increase by 0.5% (2021: 1%)	(3,145)	(6,509)
Decrease by 0.5% (2021: 1%)	3,368	7,487
Future pension growth		
Increase by 0.5%	426	424
Decrease by 0.5%	(426)	(423)
Future mortality		
Increase by 1 year	(2,803)	(2,702)
Decrease by 1 year	2,780	2,671

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.

## 17. REVENUE

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue from contracts with customers:				
- Sale of goods	6,664,145	5,733,816	-	-
Other revenue:				
Dividend income:				
- Subsidiaries	-	-	617,325	568,600
- Associate	-	-	480	390
	-	-	617,805	568,990
Total revenue	6,664,145	5,733,816	617,805	568,990

## 18. PROFIT BEFORE TAX

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

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Auditors' remuneration:					
- Statutory audit fees:					
- Auditors of the Group		649	620	84	80
- Non-audit fees:					
- Auditors of the Group		18	18	18	18
- Member firms of auditors		294	259	22	-
- Others		249	329	3	2
Property, plant and equipment:					
- depreciation	4	165,087	157,991	-	-
- loss/(gain) on disposal		655	(3,696)	-	-
- impairment loss	4	8,100	150	-	-
- written off		1,971	2,675	-	-
Amortisation of intangible assets	6	1,159	1,158	-	-
Right-of-use assets:					
- depreciation	5	32,173	34,993	-	-
- impairment loss	5	-	1,162	-	-

**18. PROFIT BEFORE TAX (CONTD.)**

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

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Employee benefits expenses	19	<b>647,196</b>	628,532	-	-
Non-executive Directors' remuneration	20	<b>1,352</b>	1,341	<b>1,352</b>	1,341
Net foreign exchange loss/(gain):					
- realised		<b>42,225</b>	4,399	-	-
- unrealised		<b>(2,337)</b>	(1,480)	-	-
Net write-down of slow moving inventories		<b>2,665</b>	6,137	-	-
Trade receivables:					
- net reversal of impairment loss		<b>(257)</b>	(504)	-	-
- written off		-	515	-	-
Finance cost of lease liabilities	5	<b>5,897</b>	6,840	-	-
Finance cost of loan from a related company		<b>9,281</b>	3,358	-	-
Other finance cost		<b>29,816</b>	25,650	-	-
Expenses relating to short-term leases	5	<b>54,203</b>	35,072	-	-
Expenses relating to leases of low-value assets	5	<b>434</b>	276	-	-

**19. EMPLOYEE BENEFITS EXPENSES**

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Wages, salaries and others	<b>572,719</b>	553,888	-	-
Contributions to Employees Provident Fund	<b>62,260</b>	57,712	-	-
Expenses related to defined benefit plans	<b>5,724</b>	4,827	-	-
Share-based payments expense	<b>6,493</b>	12,105	-	-
	<b>647,196</b>	628,532	-	-

Included in employee benefits expenses of the Group are executive Directors' remuneration amounting to RM9,792,000 (2021: RM10,081,000) as further disclosed in Note 20.

## 20. DIRECTORS' REMUNERATION

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Executive:					
- Salaries and other emoluments		7,034	6,741	-	-
- Post-employment benefits		287	276	-	-
- Share-based payments		2,471	3,064	-	-
Total executive Directors' remuneration (excluding benefits-in-kind)	19	9,792	10,081	-	-
Estimated money value of benefits-in-kind		1,036	1,047	-	-
Total executive Directors' remuneration (including benefits-in-kind)		10,828	11,128	-	-
Non-executive:					
- Fees		1,210	1,195	1,210	1,195
- Other emoluments		142	146	142	146
Total non-executive Directors' remuneration	18	1,352	1,341	1,352	1,341
Total Directors' remuneration		12,180	12,469	1,352	1,341

## 21. INCOME TAX EXPENSE

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Statements of comprehensive income</b>					
Malaysian income tax:					
- Current year		218,858	159,040	408	343
- (Over)/Underprovision in prior years		(4,288)	2,007	1	1
		214,570	161,047	409	344
Deferred tax:	9				
- Relating to origination and reversal of temporary differences		34,016	12,152	-	-
- (Over)/Underprovision in prior years		(9,443)	8,807	-	-
		24,573	20,959	-	-
Income tax expense recognised in profit or loss		239,143	182,006	409	344

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2021: 24%) of the estimated assessable profit for the year.

## 21. 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	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Profit before tax	859,477	751,817	616,767	567,881
Taxation at Malaysian statutory tax rate of 24% (2021: 24%)	206,274	180,436	148,024	136,291
Expenses not deductible for tax purposes	6,042	8,583	1,007	995
Income not subject to tax	(846)	(1,738)	(148,623)	(136,943)
Effect of different tax rate*	48,461	-	-	-
Tax incentives	(7,057)	(16,089)	-	-
(Over)/Underprovision of income tax in prior years	(4,288)	2,007	1	1
(Over)/Underprovision of deferred tax in prior years	(9,443)	8,807	-	-
Income tax expense recognised in profit or loss	239,143	182,006	409	344

\* Effect of different tax rate arising from the one-off tax measure proposed by the Government of Malaysia in Budget 2022, whereby chargeable income above the RM100 million mark will be taxed at a rate of 33%, instead of 24% for the year of assessment 2022.

## 22. OTHER COMPREHENSIVE EXPENSE

Group	2022			2021		
	Before tax RM'000	Tax benefit/ (expense) (Note 9) RM'000	Net of tax RM'000	Before tax RM'000	Tax (expense)/ benefit (Note 9) RM'000	Net of tax RM'000
<b>Item that may be reclassified to profit or loss in subsequent periods</b>						
Cash flow hedge						
- (Losses)/Gains arising during the year	(9,512)	2,283	(7,229)	5,601	(1,344)	4,257
- Reclassification adjustments for losses included in profit or loss	760	(182)	578	(1,930)	463	(1,467)
	(8,752)	2,101	(6,651)	3,671	(881)	2,790
<b>Item that will not be reclassified to profit or loss in subsequent periods</b>						
Remeasurement of defined benefit liability	(3,387)	813	(2,574)	(3,948)	948	(3,000)
	(12,139)	2,914	(9,225)	(277)	67	(210)

### 23. EARNINGS PER SHARE UNIT - BASIC

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

	Group	
	2022 RM'000	2021 RM'000
Profit attributable to owners of the parent	620,334	569,811
Weighted average number of ordinary shares in issue ('000)	234,500	234,500
	sen	sen
Earnings per share - Basic	265	243

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

### 24. DIVIDENDS

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

	Group and Company	
	2022 RM'000	2021 RM'000
<b>In respect of the year ended 31 December 2022:</b>		
Dividend on ordinary shares:		
- Second tax exempt interim (single-tier) dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 15 December 2022	164,150	-
- First tax exempt interim (single-tier) dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 6 October 2022	164,150	-
<b>In respect of the year ended 31 December 2021:</b>		
Dividend on ordinary shares:		
- Third tax exempt interim (single-tier) dividend of 102 sen per share on 234,500,000 ordinary shares, and paid on 19 May 2022	239,190	-
- Second tax exempt interim (single-tier) dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 15 December 2021	-	164,150
- First tax exempt interim (single-tier) dividend of 70 sen per share on 234,500,000 ordinary shares, and paid on 7 October 2021	-	164,150

## 24. DIVIDENDS (CONTD.)

	Group and Company	
	2022 RM'000	2021 RM'000
<b>In respect of the year ended 31 December 2020:</b>		
Dividend on ordinary shares:		
- Third tax exempt interim (single-tier) dividend of 92 sen per share on 234,500,000 ordinary shares, and paid on 20 May 2021	-	215,740
	<b>567,490</b>	<b>544,040</b>

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 2022, of 122 sen per share on 234,500,000 ordinary shares, amounting to a dividend payable of RM286,090,000. 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 2023.

## 25. OPERATING SEGMENTS

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

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.

Group	Food and beverages		Others		Total	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Segment revenue and results</b>						
Revenue	<b>5,495,663</b>	4,773,462	<b>1,168,482</b>	960,354	<b>6,664,145</b>	5,733,816
Operating profit	<b>812,550</b>	717,313	<b>91,570</b>	70,252	<b>904,120</b>	787,565
Included in the measure of segment operating profit are:						
Depreciation of property, plant and equipment	<b>148,398</b>	141,979	<b>16,689</b>	16,012	<b>165,087</b>	157,991
Depreciation of right-of-use assets	<b>31,406</b>	34,352	<b>767</b>	641	<b>32,173</b>	34,993



## 25. OPERATING SEGMENTS (CONTD.)

## Reconciliation of reportable segment profit

	Group	
	2022 RM'000	2021 RM'000
Segment profit	904,120	787,565
Finance costs	(44,994)	(35,848)
Finance income	721	828
Other unallocated expenses	(1,189)	(1,453)
Share of profit of an equity-accounted associate, net of tax	819	725
Consolidated profit before tax	859,477	751,817

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

## 26. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

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

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

Group 2022	Carrying amount RM'000	Amortised cost RM'000	Derivatives designated as hedging instruments RM'000
<b>Financial assets</b>			
Trade and other receivables (excluding prepayments)	444,844	428,418	16,426
Cash and bank balances	8,171	8,171	-
	453,015	436,589	16,426
<b>Financial liabilities</b>			
Loans and borrowings	(786,890)	(786,890)	-
Trade and other payables (excluding provisions)	(1,685,003)	(1,653,136)	(31,867)
Lease liabilities	(147,532)	(147,532)	-
	(2,619,425)	(2,587,558)	(31,867)

## 26. FINANCIAL INSTRUMENTS (CONTD.)

## (a) Categories of financial instruments (contd.)

Group 2021	Carrying amount RM'000	Amortised cost RM'000	Derivatives designated as hedging instruments RM'000
<b>Financial assets</b>			
Trade and other receivables (excluding prepayments)	382,704	379,155	3,549
Cash and bank balances	6,898	6,898	-
	<b>389,602</b>	<b>386,053</b>	<b>3,549</b>
<b>Financial liabilities</b>			
Loans and borrowings	(345,693)	(345,693)	-
Trade and other payables (excluding provisions)	(1,542,126)	(1,537,599)	(4,527)
Lease liabilities	(168,313)	(168,313)	-
	<b>(2,056,132)</b>	<b>(2,051,605)</b>	<b>(4,527)</b>
<b>Company</b>			
<b>2022</b>			
<b>Financial assets</b>			
Trade and other receivables	<b>367,197</b>	<b>367,197</b>	-
<b>Financial liabilities</b>			
Trade and other payables	<b>(1,749)</b>	<b>(1,749)</b>	-
<b>2021</b>			
<b>Financial assets</b>			
Trade and other receivables	318,081	318,081	-
<b>Financial liabilities</b>			
Trade and other payables	(1,564)	(1,564)	-

## 26. FINANCIAL INSTRUMENTS (CONTD.)

## (b) Net gains and losses arising from financial instruments

	Group		Company	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Net gains/(losses) on:				
Fair value through profit or loss				
- Designated upon initial recognition	12,937	7,585	-	-
Financial assets at amortised cost				
- Mandatorily required by MFRS 9	978	1,332	1,708	1,437
Financial liabilities at amortised cost	(21,485)	(32,929)	-	-
	<b>(7,570)</b>	<b>(24,012)</b>	<b>1,708</b>	<b>1,437</b>

## 27. 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.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

## (a) Credit risk (contd.)

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

Group	Note	Category	12-month or lifetime ECL	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
<b>2022</b>						
Trade receivables - third parties	11	<b>Note 1</b>	<b>Lifetime ECL (simplified)</b>	<b>178,126</b>	<b>(30,901)</b>	<b>147,225</b>
Other receivables	11	<b>I</b>	<b>12-month ECL</b>	<b>43,109</b>	-	<b>43,109</b>
Loans to employees	11	<b>I</b>	<b>12-month ECL</b>	<b>13,964</b>	-	<b>13,964</b>
Amounts due from related companies and an associate (trade and non-trade)	11	<b>I</b>	<b>12-month ECL</b>	<b>224,120</b>	-	<b>224,120</b>
					<b>(30,901)</b>	
<b>2021</b>						
Trade receivables - third parties	11	Note 1	Lifetime ECL (simplified)	152,396	(31,158)	121,238
Other receivables	11	I	12-month ECL	51,709	-	51,709
Loans to employees	11	I	12-month ECL	15,862	-	15,862
Amounts due from related companies and an associate (trade and non-trade)	11	I	12-month ECL	190,346	-	190,346
					(31,158)	

**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.

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## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

## (a) Credit risk (contd.)

Company	Note	Category	12-month or lifetime ECL	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
<b>2022</b>						
Amounts due from subsidiaries (non-trade)	11	I	12-month ECL	367,197	-	367,197
<b>2021</b>						
Amounts due from subsidiaries (non-trade)	11	I	12-month ECL	318,081	-	318,081

**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.

*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 RM46,343,000 (2021: RM52,927,000).

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

### (a) Credit risk (contd.)

#### Trade receivables (contd.)

##### *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 a provision 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 provision matrix and its ECLs is assessed individually by considering historical payment trends and financial strength of the trade receivable.



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## 27. 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.

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
<b>2022</b>			
Not past due	133,405	-	133,405
Past due 1 - 30 days	2,590	-	2,590
Past due 31 - 90 days	6,466	-	6,466
	<b>142,461</b>	<b>-</b>	<b>142,461</b>
<b>Credit impaired</b>			
More than 90 days past due	4,764	-	4,764
Individually impaired	30,901	(30,901)	-
<b>Trade receivables</b>	<b>178,126</b>	<b>(30,901)</b>	<b>147,225</b>
<b>Collateralised trade receivables</b>			
- where no loss allowance recognised	31,394	-	31,394
<b>2021</b>			
Not past due	115,363	-	115,363
Past due 1 - 30 days	797	-	797
Past due 31 - 90 days	3,286	(511)	2,775
	<b>119,446</b>	<b>(511)</b>	<b>118,935</b>
<b>Credit impaired</b>			
More than 90 days past due	2,303	-	2,303
Individually impaired	30,647	(30,647)	-
<b>Trade receivables</b>	<b>152,396</b>	<b>(31,158)</b>	<b>121,238</b>
<b>Collateralised trade receivables</b>			
- where no loss allowance recognised	35,487	-	35,487

## 27. 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 RM6,000 (2021: RM161,000) 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 (2021: 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.

Group	Trade receivables		
	Lifetime ECL RM'000	Credit impaired RM'000	Total RM'000
<b>At 1 January 2022</b>	511	30,647	31,158
Impairment loss reversed	(511)	(89)	(600)
Impairment loss recognised	-	343	343
<b>At 31 December 2022</b>	-	30,901	30,901
<b>At 1 January 2021</b>	782	30,880	31,662
Impairment loss reversed	(271)	(1,106)	(1,377)
Impairment loss recognised	-	873	873
<b>At 31 December 2021</b>	511	30,647	31,158

**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.



## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

### (a) Credit risk (contd.)

#### 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.

#### Amounts due from subsidiaries

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

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

##### *Exposure to credit risk, credit quality and collateral*

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

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

##### *Recognition and measurement of impairment loss*

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

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

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

### (a) Credit risk (contd.)

#### **Amounts due from subsidiaries (contd.)**

##### *Recognition and measurement of impairment loss (contd.)*

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.

##### *Credit terms*

Credit terms of trade receivables range from 1 to 60 days (2021: 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 55% (2021: 56%) of the Group's trade receivables were due from 6 (2021: 6) major customers who are reputable and located in Malaysia.

### (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.



## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

## (b) Liquidity risk (contd.)

**Maturity analysis**

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

Group 2022	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
<b>Non-derivative financial liabilities</b>							
Bank overdraft - unsecured	186,890	3.15	186,890	186,890	-	-	-
Loan from a related company - unsecured	300,000	4.39	339,510	13,170	13,170	313,170	-
Revolving credit - unsecured	300,000	2.95	300,097	300,097	-	-	-
Trade and other payables, excluding derivatives and provisions	1,653,136	-	1,653,136	1,653,136	-	-	-
Lease liabilities	147,532	1.85 - 4.23	163,012	33,056	29,095	80,171	20,690
	<b>2,587,558</b>		<b>2,642,645</b>	<b>2,186,349</b>	<b>42,265</b>	<b>393,341</b>	<b>20,690</b>
<b>Derivative financial liabilities/(assets)</b>							
Forward exchange contracts (gross settled):							
- Outflow	15,441	-	1,316,661	1,316,661	-	-	-
- Inflow	-	-	(1,301,220)	(1,301,220)	-	-	-
	<b>15,441</b>		<b>15,441</b>	<b>15,441</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>2,602,999</b>		<b>2,658,086</b>	<b>2,201,790</b>	<b>42,265</b>	<b>393,341</b>	<b>20,690</b>

## 27. 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.)

Group 2021	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
<b>Non-derivative financial liabilities</b>							
Bank overdraft - unsecured	10,693	2.39	10,693	10,693	-	-	-
Loan from a related company - unsecured	100,000	3.30	109,900	3,300	3,300	103,300	-
Revolving credit - unsecured	235,000	1.90 - 2.09	235,023	235,023	-	-	-
Trade and other payables, excluding derivatives and provisions	1,537,599	-	1,537,599	1,537,599	-	-	-
Lease liabilities	168,313	1.95 - 4.23	188,547	27,029	30,744	82,626	48,148
	2,051,605		2,081,762	1,813,644	34,044	185,926	48,148
<b>Derivative financial liabilities/(assets)</b>							
Forward exchange contracts (gross settled):							
- Outflow	978	-	980,460	980,460	-	-	-
- Inflow	-	-	(979,482)	(979,482)	-	-	-
	978		978	978	-	-	-
	2,052,583		2,082,740	1,814,622	34,044	185,926	48,148

## 27. 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.)

Company	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
<b>2022</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	(1,749)	-	(1,749)	(1,749)	-	-	-
<b>2021</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	(1,564)	-	(1,564)	(1,564)	-	-	-

## (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 and purchases 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.

## 27. 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:

Group	Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000
<b>2022</b>			
Trade receivables	225	-	-
Trade payables	(120,959)	(201)	(26,903)
Intra-group receivables	174,673	-	10,865
Intra-group payables	(146,062)	(25,556)	(22,900)
Exposure in the statements of financial position	(92,123)	(25,757)	(38,938)
<b>2021</b>			
Trade receivables	246	-	-
Trade payables	(142,564)	(314)	(61,612)
Intra-group receivables	135,885	-	13,847
Intra-group payables	(137,549)	(17,433)	(37,836)
Exposure in the statements of financial position	(143,982)	(17,747)	(85,601)

## 27. 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.

Group		2022 RM'000	2021 RM'000
USD/RM	- strengthened 10% (2021:10%)	<b>(9,212)</b>	(14,398)
	- weakened 10% (2021:10%)	<b>9,212</b>	14,398
GBP/RM	- strengthened 10% (2021:10%)	<b>(2,576)</b>	(1,775)
	- weakened 10% (2021:10%)	<b>2,576</b>	1,775
EUR/RM	- strengthened 10% (2021:10%)	<b>(3,894)</b>	(8,560)
	- weakened 10% (2021:10%)	<b>3,894</b>	8,560

## (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.

## 27. 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	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
<b>Fixed rate instrument</b>				
Financial liabilities	(147,532)	(168,313)	-	-
<b>Floating rate instruments</b>				
Financial assets	-	-	78,172	77,781
Financial liabilities	(786,890)	(345,693)	-	-
	<b>(786,890)</b>	<b>(345,693)</b>	<b>78,172</b>	<b>77,781</b>

**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 RM7,869,000 (2021: RM3,457,000) and RM782,000 (2021: RM778,000) respectively on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.



## 27. 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.

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.



## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

## (d) Hedging activities (contd.)

## (i) Currency risk - Transactions in foreign currency (contd.)

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) 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 have nominal value of RM1,315,623,000 (2021: RM981,642,000). The forward exchange contracts are entered into within a year and settled according to the individual contracts settlement date.

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

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
<b>2022</b>			
Forward exchange contracts	(15,441)	(15,441)	(15,441)
<b>2021</b>			
Forward exchange contracts	(978)	(978)	(978)

During the year, a loss of RM7,229,000 (2021: a gain of RM4,257,000) net of tax was recognised in the other comprehensive income and a gain of RM578,000 (2021: a loss of RM1,467,000) net of tax was reclassified from equity to profit or loss. There is ineffective loss recognised in profit or loss during the year in respect of the hedge of RM81,000 (2021: RM58,000).

## 27. 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.

Group	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		
<b>2022</b>										
<b>Financial assets</b>										
Forward exchange contracts	-	16,426	-	16,426	-	-	-	-	16,426	16,426
Loans to employees	-	-	-	-	-	-	13,964	13,964	13,964	13,964
	-	16,426	-	16,426	-	-	13,964	13,964	30,390	30,390
<b>Financial liabilities</b>										
Forward exchange contracts	-	(31,867)	-	(31,867)	-	-	-	-	(31,867)	(31,867)
<b>2021</b>										
<b>Financial assets</b>										
Forward exchange contracts	-	3,549	-	3,549	-	-	-	-	3,549	3,549
Loans to employees	-	-	-	-	-	-	15,862	15,862	15,862	15,862
	-	3,549	-	3,549	-	-	15,862	15,862	19,411	19,411
<b>Financial liabilities</b>										
Forward exchange contracts	-	(4,527)	-	(4,527)	-	-	-	-	(4,527)	(4,527)

## 27. 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 (2021: 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.

## 27. 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.

Group	Note	Carrying amounts of financial instruments in the statement of financial position RM'000	Related financial instruments that are not offset RM'000	Net amount RM'000
<b>2022</b>				
<b>Derivative financial assets</b>				
Forward exchange contracts designated as hedging instruments	11	16,426	(11,632)	4,794
<b>Derivative financial liabilities</b>				
Forward exchange contracts designated as hedging instruments	15	(31,867)	11,632	(20,235)
<b>2021</b>				
<b>Derivative financial assets</b>				
Forward exchange contracts designated as hedging instruments	11	3,549	(1,540)	2,009
<b>Derivative financial liabilities</b>				
Forward exchange contracts designated as hedging instruments	15	(4,527)	1,540	(2,987)

## 28. 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.

## 29. CAPITAL COMMITMENTS

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

	Group	
	2022 RM'000	2021 RM'000
Plant and equipment:		
Approved and contracted for	29,521	28,041

## 30. 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 Kuala Lumpur High Court has allowed the consolidation and transfer of Mad Labs' claim to the IP Court to be heard together with NPSB's claim. The high court trial at the IP Court which commenced on 10 June 2021 remains on-going. Parties have since completed cross-examining and re-examining all trial witnesses that were called/subpoenaed and filed the first round of written submissions on 3 January 2023. The IP Court has directed for Parties to file their reply submissions on 20 February 2023 and Parties' representing solicitors are to attend court on 10 March 2023 to further provide oral submissions.

Based on the initial opinion rendered by Messrs. Zaid Ibrahim & Co., the then solicitors of NPSB, 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.

### 31. 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 15.

	Note	Group		Company	
		2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Sales of goods	(a)	<b>(1,367,955)</b>	(1,039,599)	-	-
Purchases of goods and services	(a)	<b>1,649,707</b>	1,315,208	-	-
Purchases of plant and equipment	(a)	<b>25,588</b>	45,936	-	-
Royalty expenses		<b>318,324</b>	283,164	-	-
IT shared services		<b>48,784</b>	45,082	-	-
Rendering of services		<b>(37,417)</b>	(31,832)	-	-
Finance costs/(income)		<b>9,281</b>	3,358	<b>(1,708)</b>	(1,437)

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

#### Compensation of key management personnel

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

	Group	
	2022 RM'000	2021 RM'000
Salaries and other emoluments	<b>16,493</b>	16,802
Post-employment benefits	<b>1,066</b>	1,017
Share-based payments	<b>4,423</b>	5,519
Estimated monetary value of benefits-in-kind	<b>1,692</b>	1,767
	<b>23,674</b>	25,105

# SHAREHOLDING STATISTICS

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As at 28 February 2023

<b>Authorised Capital</b>	: RM300,000,000
<b>Issued and paid-up share capital</b>	: RM267,500,000
<b>Class of shares</b>	: Ordinary shares of RM1.00 each
<b>No. of shareholders</b>	: 6,824
<b>Voting rights</b>	: 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	19,178,550	8.178

## 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	19,178,550	8.178
3 CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	2,965,800	1.264
4 KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	2,437,500	1.039
5 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	1,672,010	0.713
6 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	1,021,500	0.435
7 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	1,014,300	0.432
8 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	866,557	0.369
9 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	806,470	0.343



## Shareholding Statistics

As at 28 February 2023

Name	Number of shares held	%
10 MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	790,000	0.336
11 HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CACEIS BANK (LUX BR-UCITSCLT)	748,500	0.319
12 CITIGROUP NOMINEES (ASING) SDN BHD CB SPORE GW FOR GOVERNMENT OF SINGAPORE (GIC C)	641,721	0.273
13 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CGS CIMB)	584,250	0.249
14 PERTUBUHAN KESELAMATAN SOSIAL	521,900	0.222
15 CARTABAN NOMINEES (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	502,200	0.214
16 CARTABAN NOMINEES (ASING) SDN BHD STATE STREET LONDON FUND OQ78 FOR ISHARES IV PUBLIC LIMITED COMPANY	501,900	0.214
17 HSBC NOMINEES (ASING) SDN BHD J.P. MORGAN SECURITIES PLC	495,200	0.211
18 KWANG TEOW SANG SDN BHD	430,700	0.183
19 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. INVESTMENT FUNDS FOR EMPLOYEE BENEFIT TRUSTS	426,100	0.181
20 BATU PAHAT SENG HUAT SDN BERHAD	363,985	0.155
21 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD FIDUCIARY TRUST COMPANY INSTITUTIONAL TOTAL INTERNATIONAL STOCK MARKET INDEX TRUST IT	361,500	0.154
22 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	359,900	0.153
23 CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	344,100	0.146
24 AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	324,900	0.138

## Shareholding Statistics

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As at 28 February 2023

Name	Number of shares held	%
25 CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED (A/C 1125250001)	301,385	0.128
26 CITIGROUP NOMINEES (ASING) SDN BHD MERRILL LYNCH INTERNATIONAL	300,100	0.127
27 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	290,200	0.123
28 CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR RBC INVESTOR SERVICES TRUST (CLIENTS ACCOUNT)	283,500	0.120
29 HBSC NOMINEES (ASING) SDN BHD NTGS LUX FOR AMF TJANSTEPENSION AB	276,000	0.117
30 KUOK FOUADATION BERHAD	274,200	0.116

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 - 99	1,109	16.251	7,471	0.003
100 - 1,000	4,069	59.628	1,784,861	0.761
1,001 - 10,000	1,194	17.497	4,239,596	1.808
10,001 - 100,000	370	5.422	11,381,347	4.853
100,001 - less than 5% of issued shares	80	1.172	27,631,612	11.784
5% and above of issued shares	2	0.030	189,455,113	80.791
<b>Total</b>	<b>6,824</b>	<b>100.000</b>	<b>234,500,000</b>	<b>100.000</b>

## DIRECTORS' SHAREHOLDINGS

	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
<b>Nestlé S.A., the ultimate holding company</b>				
Juan Jose Aranols Campillo	13,227	0.00048	-	-
Syed Saiful Islam	782	0.00003	-	-

# LIST OF PROPERTIES HELD

At 31 December 2022

Location	Tenure	Age*	Expiry Date	Size (m <sup>2</sup> )	Description	Net Book Value RM'000
1. Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	13 - 52**	10.06.2070	113,396	Factory	37,501
2. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	53	29.01.2070	36,835	Factory & warehouse	9,944
3. Lot No. 687 - 696, 3863 - 3866 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	26 - 31	15.11.2048 26.06.2049 27.06.2049 13.08.2055 20.11.2095 21.11.2095	136,199	Factory	2,347
4. Lot No. 3857 - 3862 & 4672 Jalan Perusahaan 4 Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	26 - 31	27.06.2049 20.11.2095	33,870	Factory	1,122
5. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	31	19.10.2053	25,460	Factory	259
6. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	28	12.10.2054	12,740	Factory	501
7. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	9	26.06.2049	4,249	Vacant land	242

\* Approximation of age of property in years.

\*\* Amalgamation of Shah Alam Complex, Batu Tiga & Sri Muda land in 2015.

**NESTLÉ (MALAYSIA) BERHAD**

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