



**QUESTIONS RAISED BY MSWG**  
**56<sup>th</sup> ANNUAL GENERAL MEETING**  
**14 August 2020**

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**STRATEGIC & FINANCIAL MATTERS**

- 1) **The mandatory closure of Heineken Malaysia’s brewery from 18 March 2020 to 3 May 2020 pursuant to the mandatory closure of non-essential business activities due to COVID-19 pandemic has caused a material decline in Heineken Malaysia’s revenue and the disruption from the closure is expected to persist and continue to have a significant adverse impact to the Group in FY20 (1QFY20 Quarterly Financial Results).**

- a) **What is the expected decline in revenue in FY20?**

**HMB’s response**

COVID-19 crisis posed unprecedented challenges to the Industry, economy and the world at large. For 1H FY20, we see a decline of 26% in revenue mainly due to the 46 days of suspension of our operations resulting in zero revenue. Last 2 months (June and July) showed encouraging recoveries with the easing of MCO but we expect the overall business environment to remain challenging as economic impacts from COVID-19 will affect consumers’ spending power, purchasing habits, containment measures and even challenges from contraband beer.

- b) **Clubs, bars and pubs are still not allowed to open under the Recovery Movement Control Order, demand for beers and alcoholic products are affected. What are the alternative revenue generation options for Heineken Malaysia? How does the Group work around the new norm?**

**HMB’s response**

Whilst we see encouraging recovery in on trade channels in the past 2 months, around 20% or 1,400 outlets of modern on trade that operate with liquor license are still closed for business. This represents around 6,600 job loss and revenue loss of around RM80 mil to the Government in the form of taxes.

We have to adapt our business strategies to the new norm, for example:

- Support our traditional on trade partners such as coffee shops and hawker centres through “Save our Street Food” campaign to restart their businesses by driving in the traffic.
- Support our modern on trade such as bars and pubs to attract more consumers through “Raise our Bars” campaign.
- Support our distributors by restructuring their overdues and arranging for credit facilities.
- Accelerating our e-commerce via Drinkies by expanding our geographical footprint from 3 regions to 7 regions.
- Taking prudent cost cutting measures to ensure our commercial spend are in line with our revenue.

## **STRATEGIC & FINANCIAL MATTERS**

*(Continued under Q1)*

- c) **Heineken Malaysia continues to engage with government on trade of illicit alcoholic products, which in turn is probably spurred by the high excise duties on beers in Malaysia (page 35 of AR2019).**

**How severely has the business of Heineken Malaysia been affected by the contraband market? What is the progress of discussions, if any, with the government on this issue?**

**HMB's response**

Illicit alcohol negatively affects the Industry and at the same time it poses health risks to consumers. Root cause of this problem is high excise duties and enforcement. The Industry estimates that illicit alcohol makes up about 20% of the total market in Peninsular Malaysia, and around 80% in East Malaysia. The Industry estimates that the country suffer losses of around RM1.5 billion in taxes every year due to illicit trade. We see some decline in illicit trade last year. With the new Government, we continue to engage them on this front as this is an important revenue stream for both the Industry and the Government.

- 2) **Brewers in Malaysia have come under pressure recently following fatal road accidents caused by drivers driving under the influence (DUI). Then, there are growing calls for government to suspend all production, business, and sale of alcoholic beverages to prevent drunk driving. In addition, the Kuala Lumpur City Hall's (DBKL) has put a freeze on the granting of new liquor licence applications with immediate effect.**

- a) **How has the Company dealt with such issues?**

**HMB's response**

Whilst the World Health Organisation ("WHO") and the Malaysian Government statistics show that road accident death under the influence of alcohol is less than 0.1%, as a global brewer, we always advocate responsible consumption for our products. We have invested RM7.3 million on "Drink Sensibly" and "Enjoy Responsibly" platforms. We have provided more than 21,000 e-hailing promo codes and free rides to consumers to encourage them to not drink and drive. We also allocate 10% of our Heineken® brand media budget towards promoting responsible consumption. Through our collaborations with Heineken Formula 1 sponsorship, we continue to educate the consumers on "When you drive, never drink".

## **STRATEGIC & FINANCIAL MATTERS**

*(Continued under Q2)*

- b) Heineken Malaysia has dedicated substantial resources and efforts over the years to educate the public of responsible consumption via Drink Sensibly campaigns, however negative publicity and regulatory issues will unavoidably hamper shareholders' returns.

**What could be done further to improve public perception on brewers and to educate the public better?**

**HMB's response**

This is an ongoing effort of increasing awareness through education, collaborating with key stakeholders such as outlet owners and engaging the policy makers. All stakeholders and policy makers must understand that only 0.1% of road accident death in Malaysia are attributed to driving under the influence of alcohol (per WHO report and Malaysian Government statistics dated 19 March 2020). The right behaviour starts from ourselves and our employees are all aware that we have ZERO TOLERANCE on the issue of drink driving.

We will continue to support our retail partners on the topic of responsible serving, and educating our customers and consumers on responsible drinking. The emergence of e-hailing services such as Grabs will also be effective in addressing this issue as they are now very convenient and consumer friendly. As a brewer, we also believe that by providing alternative products such as Heineken 0.0, a de-alcoholised beer will empower our consumers to make the right choice.

- 3) **Cash flow of Heineken Malaysia is expected to be significantly affected in FY20 given slower cash collection from trade receivables and weaker demand from on-trade and tourism channels. With that, the Company plans to optimise working capital management and utilise borrowing facilities to ensure the ongoing liquidity of the Group (1QFY20 Quarterly Financial Results).**
- a) **To what extent will Heineken Malaysia's cash flow in FY20 be affected by the slower collection of trade receivables and weaker demand? Apart from bank borrowings, will there be a need for Heineken Malaysia to raise fund via equity exercises?**

**HMB's response**

The prolonged suspension of operations (46 days of suspension in March and April), gradual recovery following the easing of MCO and slowing sales due to various restrictions have impacted our cash flow. However, we were able to leverage on flexible banking facilities to meet our working capital requirements and also we were able to progressively improve trade collections by arranging credit facilities for our distributors during this period of slowing sales. We believe there is no need to raise fund via equity exercises.

***(Continued under Q3)***

- b) Will there be an increase in expected credit losses on trade receivables that have past due for more than 180 days in FY20?**

**HMB's response**

We have performed credit risk assessment on our trade partners. We offered flexible repayment plans via our banking partners to help ease their financial burden and cash flow. At this point, there were no defaults and we do not foresee an increase in the expected credit losses. We will continue with the on-going initiatives to drive collection and closely assess the situation to minimise bad debt exposure.

- c) In view of the priority to preserve cash, will there be any change in the Company's dividend payout ratio which has been consistently above 90% in the past four years?**

**HMB's response**

Our dividend policy has not changed. However, given the unprecedented impact and the uncertainties from the COVID-19 pandemic, the Board has decided to adopt a more prudent approach in respect of dividend payment and has not recommended any interim dividend for the first six months ended 30 June 2020. The Board will continue to evaluate the situation as it unfolds.

- 4) Heineken Malaysia launched Drinkies.my in 2018 to deliver chilled beers and ciders on demand to consumers' doorstep within 60 minutes for selected areas. The on-demand delivery service is currently available in major cities of Peninsular Malaysia (page 32 of AR2019).**

**How has this branch of the business performed and what are the expectations for the year ahead? Has there been increase demand for such delivery due to restriction in movement and minimal social interaction?**

**HMB's response**

Firstly, we are pleased that we were the first brewer to venture into B2C E-Commerce, through Drinkies, as a way to connect directly with our consumers.

Our unique value proposition was that we enhance the consumer experience by delivering chilled beer direct to the consumer within 60 minutes. We also have scheduled delivery at better value for consumers. We are also the first to bring the bar experience to the home where consumers can now order draught beers for their home parties.

MCO has accelerated digital adoption among consumers. We have now expanded the geographical footprint from just Klang Valley, Penang, Johore Bahru to include 4 more cities i.e. Seremban, Malacca, Ipoh and Kuantan.

We have also introduced a mobile App for Drinkies that you can easily download and we also partnered with pure players like Shopee etc.

Today, our Drinkies is the leader in online alcoholic beverages portal in Malaysia and we have a lot more works to do!

- 5) **Heineken Malaysia has launched two new products namely Heineken® 0.0 and Tiger Crystal which have garnered strong interest from consumers (page 5 of AR2019).**

**How successful have the two products been? What is their contribution to the Company's revenue?**

**HMB's response**

We launched Heineken® 0.0 and Tiger Crystal in mid-2019 and we have seen encouraging growth so far.

Heineken® 0.0 is a de-alcoholised beer that caters to new occasions for beer drinkers who enjoy the taste of beer but not necessarily the effects of alcohol. It is a great choice for those seeking to moderate their alcohol consumption as part of a balanced lifestyle.

Tiger Crystal, meanwhile, is an ultra-refreshing, easy-to-drink and less bitter beer. We are already seeing positive reception and growing demand for this less bitter proposition, which is what we call a sessionable beer.

We are unable to disclose the financial contributions of these brands, but we are confident that Heineken® 0.0 and Tiger Crystal have the potential to scale further and will help us win in the marketplace.

## CORPORATE GOVERNANCE MATTERS

- 1) **The Company continues to depart from Practice 4.1 of Malaysian Code on Corporate Governance which states that at least half of the board should comprise independent directors (page 10 of Corporate Governance Report 2019). Currently, only three of out seven directors in Heineken Malaysia are independent directors.**

**Notwithstanding the explanation provided by the Company on the Practice, Large Companies like Heineken Malaysia are required to disclose the action it intends to take, and timeframe required to apply the Practice.**

**Please take note.**

### **HMB's response**

The Board acknowledges the recommendation under Practice 4.1 that suggests a "Large Company" such as HEINEKEN Malaysia to have a majority Independent Directors on the Board.

Given the current shareholding structure of the Company in which 51% of its equity interest are indirectly held by HEINEKEN NV via its wholly-owned subsidiary, GAPL Pte Ltd, the Board believes that to fully leverage on the experience of the HEINEKEN Group and to ensure focus on long term value creation, it is in its best interest and that of its stakeholders that the Board include a fair and adequate representation of the major shareholder.

The Board has regarded the current Board composition to be effective in decision making where independent deliberation is still being upheld with the presence of the 3 Independent Directors at the Board together with the 4 nominee Directors of the major shareholder.

The views and deliberations of these Board nominees are usually aligned to safeguard the interest of the Company's shareholders as a whole. This had brought independence and objectivity to the Board deliberations of the Company and had to a certain extent met the intended outcome despite not meeting the required numbers in its expected form recommended by Practice 4.1.

Given the above circumstance, the Board would like to maintain its current composition and has not ascertained the time frame for having a majority of Independent Directors on the Board for the time being.

## CORPORATE GOVERNANCE MATTERS

- 2) Heineken Malaysia has detailed the efforts spent on promoting sustainability agenda at the group level on AR2019.

**What are the changes/amendments required on Heineken Malaysia's sustainability strategy to better align itself with current unprecedented challenges and new norms?**

### HMB's response

At HEINEKEN Malaysia, we are guided by our purpose to "Brew a Sustainable Future for our People, Business and Planet". As a long term investor, it is vital for us to grow with our communities, maintain a sustainable business, respect for people and planet. Our key focus are on Water usage, Education and supporting our community.

The main ingredient (more than 90%) in beers and stouts is water. Our ambition is to reach water balance status in the future where for every hectoliter of water we use, we return back one hectoliter of water to the environment. We have reduced our water usage by 15% since 2014 and will continue this effort. Through SPARK Foundation, we have invested over RM19.5 million to rehabilitate 5 rivers, build 19 alternative water supply solution and built a 305-meter clay dyke in Raja Musa Forest Reserve to store 150 million liters of water annually.

On Education, through our Tiger Sin Chew Education Charity concert, we have raised RM355 million for over 559 schools since 1994 and this will continue. We have invested RM6.5 million since 2012 to empower 630 teachers on English Enrichment Training Program and this has benefitted more than 9,700 students nationwide.

During the COVID-19 crisis, we have provided over 80,000 meals for more than 3,120 Malaysians from the B40 communities living around our brewery. We also initiated Tiger Beer's "Save our Street Food" campaign in which we pledged RM1.5 million to support Malaysian restaurants, coffee shops and street food vendors; and "Raise our Bars" initiative in which we committed RM1 million to support bars and pubs in recovering from financial difficulties during the crisis.

We are on track to deliver our sustainability strategy. As a global brewer, we believe in growing with our communities in which we operate.

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