



QUESTIONS RAISED BY MSWG AND HEINEKEN MALAYSIA'S RESPONSE

55th ANNUAL GENERAL MEETING
24 May 2019

STRATEGIC & FINANCIAL MATTERS

1. **The number of craft beer bars has been slowly and steadily growing in recent years. This alternative which offer diverse choices to beer drinkers. To what extent will this alternative impact the Company's market share?**

HEINEKEN Malaysia's response

- We are aware of the emerging trend of craft beer in the market as consumers taste and preference evolve to include a repertoire of drinking occasions.
- Based on market insight, the size of craft beer market is relatively insignificant compared to the size of the entire beer market in Malaysia.
- We are open to exploring new options in the future. However, in view of current economic conditions and increased costs of living, we believe that craft beer products are priced at a relatively unaffordable range to average consumers who continue seeking more value. Hence, we will continue to focus on our winning portfolio to deliver results.
- We are confident that our current product portfolio, supported by effective commercial execution and route to market strategy, as well as by investing into innovations that have scale, enable us to cater to the diverse and evolving needs of our consumers.

STRATEGIC & FINANCIAL MATTERS

2. **As stated on page 138 of the Annual Report 2018 (AR 2018), the Company has an unsecured contingent liability totalling RM56.32 million due to the bills of demand from the Royal Malaysian Customs of Federal Territory of Kuala Lumpur on additional excise duty and sales tax. Please provide an update on this matter.**

HEINEKEN Malaysia's response

- The Company is disputing the basis of the additional excise duty and sales tax raised, and has accounted for this RM56 million as a contingent liability.
- We had submitted an appeal in August 2016 to the Director General of Customs that the bills of demand ought to be cancelled as we and our tax consultants found no basis for the issue of the bills of demands.
- We have also engaged the Ministry of Finance and formally written to them reiterating our position and the grounds on which the bills of demand should be cancelled. No decision has been made to-date.
- We will continue to engage the Ministry of Finance on this matter and at the same time, we would seek opinion and expert advice from our legal and tax consultants before deciding on the next course of action.

3. **On page 136 of AR2018, Note 20 to the Financial Statements, although the overall compensation for key management personnel was lower year-on-year, the remuneration for them at the Group and Company level increased by 41.32% to RM2.19 million, from RM1.55 million in 2017. What is the reason for the significant increase in remuneration?**

HEINEKEN Malaysia's response

- The Directors' remuneration which amounted to RM2.18 million as appeared on page 136 of our Annual Report mainly comprises of salary and other emoluments paid to our former Managing Director, who served the Company until 31 August 2018, and current Managing Director, who was appointed on 1 September 2018. The breakdown of their remuneration is reported on page 76 of our Annual Report.
- The remuneration package of the Managing Director of HEINEKEN Malaysia is guided by our HEINEKEN Global compensation framework. Such guidance ensures that the remuneration package is competitive, benchmarked at market standards, reflects the roles and responsibilities, level of experience of the Managing Director and it drives performance.
- Based on the Corporate Governance Monitor Report 2019 which was recently published by the Securities Commission, HEINEKEN Malaysia was ranked 57th among the top 100 listed companies on the Main Market of Bursa Malaysia in terms of CEO remuneration.

CORPORATE GOVERNANCE MATTERS

1. **The Company has received six reports on suspicion of fraud or operational failures via the HEINEKEN Speak Up channel in FY2018 (page 73 of the AR2018). Subsequently, the Company's Internal Audit Department (IAD) has conducted six investigative audits on the cases reported (page 85 of AR2018). What are the nature and outcomes of these investigations?**

HEINEKEN Malaysia's response

- The nature of the six Speak Up reports were centered around allegations of fraudulent claims, conflict of interest and non-compliances with the Company's policies and procedures.
- Corrective and preventive actions including disciplinary measures as well as process and control improvements were taken by the Company subsequent to the investigations by the Internal Audit Department.
- None of the six Speak Up cases has caused any material financial impact to the Company.
- We will continue to educate and encourage our employees to Speak Up as we are confident that this is an effective mechanism to protect the Company against fraud and non-compliance with rules and policies.

2. **The Company has departed from Practice 4.1 and 7.2 of Malaysian Code on Corporate Governance which states that at least half of the board should comprise independent directors (page 9 of the Corporate Governance Report), and disclosure on a named basis the top five senior management's remuneration (page 17 of the CG Report).**

We take note of the explanation provided by the Company on the CG Report, nonetheless, Large Companies are required to disclose the action it intends to take, and timeframe required to apply the Practice. Please take note of this.

HEINEKEN Malaysia's response

Practice 4.1 : Large Company is to have majority independent directors on the Board

- 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.

Practice 7.2 : Disclosure of top five senior management's remuneration on a name basis

- The details of the remuneration of the Managing Director have been disclosed on page 76 of our Annual Report.
- As for the other senior management members, the Board is of the view that the disclosure of their remuneration details on a named basis, would not be in the best interests of the Company, given the confidentiality and sensitivity of the information.
- The Company always benchmarks the remuneration package of the senior management with the industry and the relevant market practice and ensures that their remuneration commensurate with the scope of work, responsibilities as well as performance against key performance indicators.
- The Board will continuously review and consider the appropriateness of the disclosure in the future.