HEINEKEN

HEINEKEN MALAYSIA BERHAD

(Company No. 5350-X)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors of Heineken Malaysia Berhad ("the Company") wishes to announce the unaudited results of the Group for the second quarter and six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL PERIOD 3 MONTHS ENDED		% Change +/(-)	CUMULATIVE PERIOD 6 MONTHS ENDED		% Change +/(-)
		30/06/2019	**30/6/2018**		**30/06/2019**	**30/06/2018**	
		RM'000	**RM'000**		**RM'000**	**RM'000**	
1.	Revenue	512,575	421,569	22%	1,037,715	855,382	21%
2.	Operating expenses	(427,299)	(348,303)		(881,030)	(716,702)	
3.	Operating profit	**85,276**	**73,266**	16%	**156,685**	**138,680**	13%
4.	Interest income/(expense)	200	212		(769)	(1,049)	
5.	Profit before tax	85,476	73,478	16%	155,916	137,631	13%
6.	Taxation	(19,780)	(18,578)		(37,414)	(33,975)	
7.	Net profit for the period	65,696	54,900	20%	118,502	103,656	14%
8.	Profit attributable to owners of the Company	65,696	54,900		118,502	103,656	
9.	Total comprehensive income attributable to owners of the Company	65,696	54,900		118,502	103,656	
10.	Earnings per share :						
(a)	Basic (based on 302,098,000 stock units) (sen)	21.75	18.17		39.23	34.31	
(b)	Fully diluted	N/A	N/A		N/A	N/A	

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for year ended 31 December 2018

HEINEKEN MALAYSIA BERHAD
(Company No. 5350-X)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 30 June 2019 RM'000	AUDITED AS AT 31 December 2018 RM'000
Non-current assets		
Property, plant and equipment	293,927	292,940
Intangible assets	20,322	21,294
Right of use assets	20,999	-
Deferred tax assets	-	1,266
Other receivables	15,866	20,624
	351,114	336,124
Current assets		
Inventories	57,671	90,037
Trade and other receivables	474,490	491,986
Current tax assets	-	9,593
Cash and cash equivalents	71,093	12,583
	603,254	604,199
Current liabilities		
Trade and other payables	591,799	414,218
Current tax liabilities	3,722	16,354
Borrowings	-	105,000
	595,521	535,572
Net current assets	7,733	68,627
	358,847	404,751
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	175,466	220,098
Shareholders' funds	326,515	371,147
Non-current liabilities		
Deferred tax liabilities	32,332	33,604
	32,332	33,604
	358,847	404,751
Net Assets per share attributable to owners of the Company (RM)	1.08	1.23

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2018.

HEINEKEN MALAYSIA BERHAD
(Company No. 5350-X)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE 6 MONTHS ENDED 30 JUNE 2019

	6 MONTHS ENDED 30 June 2019 RM'000	6 MONTHS ENDED 30 June 2018 RM'000
Cash flows from operating activities		
Profit before tax	155,916	137,631
Adjustments for:		
Amortisation of intangible assets	3,458	3,174
Depreciation of property, plant and equipment	23,268	19,485
Loss/(Gain) on disposal of property, plant and equipment	2,947	(419)
Amortisation of prepaid contractual promotion expenses	26,821	35,299
Interest expense	1,510	1,680
Interest Income	(741)	(631)
Unrealised foreign exchange differences	170	57
Operating profit before changes in working capital	213,349	196,276
Movements in working capital		
Inventories	32,366	5,524
Receivables, deposits and prepayment	(4,568)	95,423
Payables and accruals	4,483	(78,780)
Cash generated from operations	245,630	218,443
Tax paid	(40,459)	(31,551)
Interest paid	(1,510)	(1,680)
Net cash from operating activities	203,661	185,212
Cash flows from investing activities		
Acquisition of property, plant and equipment	(37,738)	(20,493)
Acquisition of intangible assets	(939)	(324)
Interest received	741	631
Proceeds from disposal of property, plant and equipment	255	573
Net cash used in investing activities	(37,681)	(19,613)
Cash flows from financing activity		
Dividends paid	-	(151,049)
Lease commitment paid	(2,470)	-
Repayment of borrowings	(105,000)	(11,000)
Net cash used in financing activity	(107,470)	(162,049)
Net change in cash and cash equivalents	58,510	3,550
Cash and cash equivalents at beginning of year	12,583	11,305
Cash and cash equivalents at end of period	71,093	14,855

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2018.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE 2019

	Attributable to equity holders of the Company			
	Non-Distributable		*Distributable*	
	Share Capital	Capital Reserve	Retained Earnings	Total
	RM'000	RM'000	RM'000	RM'000
6 months ended **30 June 2019**				
Balance at 1 January 2019	151,049	-	220,097	371,146
Total comprehensive income for the period	-	-	118,502	118,502
Dividends paid / payable	-	-	(163,133)	(163,133)
Balance at 30 June 2019	**151,049**	**-**	**175,466**	**326,515**
6 months ended **30 June 2018**				
Balance at 1 January 2018	151,049	-	209,466	360,515
Total comprehensive income for the period	-	-	103,656	103,656
Dividends paid / payable	-	-	(151,049)	(151,049)
Balance at 30 June 2018	**151,049**	**-**	**162,073**	**313,122**

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2018.

Notes:

1. Basis of Preparation

The interim financial report has been prepared in accordance with the requirements of Financial Reporting Standards ("FRS") 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's annual audited financial statements as at and for the year ended 31 December 2018.

Effective 1 January 2019, the Group has adopted Malaysian Financial Reporting Standard 16 ("MFRS 16") : "Lease" as described below:

MFRS 16 "Lease" introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. MFRS 16 supersedes the previous lease guidance including MFRS 117 "Leases" and the related interpretations when it becomes effective.

MFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance lease are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows; whereas under the MFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, MFRS 16 substantially carries forward the lessor accounting requirements in MFRS 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group and the Company have implemented MFRS 16 effective from 1 January 2019 by applying the modified retrospective method, whereby the comparatives numbers of year 2018 stated in the financial statements for year 2019 will not be restated.

The Group will apply the following practical expedients:

Recognition
- Apply the short term (less than one year) and low value (less than RM25,000) exemptions
- Apply the option to include non-lease components from the lease liability for equipment leases.

Transition
- Use the option to grandfather the lease classification for existing contracts.
- Use the transition option for lease with a remaining contract period of less than one year, meaning that these leases will not be recorded in statements of financial position and the payments will be expensed in the statement of profit or loss and other comprehensive income.
- Measure the right-of-use asset based on the lease liability recognised.

2. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018.

3. Audit Report on Preceding Annual Financial Statements

The Group annual audited financial statements for the year ended 31 December 2018 were not qualified.

4. Seasonal or Cyclical Factors

The business operations of the Group are generally affected by festive seasons.

5. Exceptional Items

There were no exceptional items for the current financial quarter under review.

6. Changes in Estimates

There were no changes in estimates that have had any material effect on current financial quarter under review.

7. Debt and Equity Securities

There was no issuance, repayment of debt and equity securities for the current financial quarter under review, except for those as disclosed under Note 22.

8. Dividends Paid

No dividends were paid during the financial quarter ended 30 June 2019.

9. Segmental Reporting

No segmental analysis is prepared as the Group's business is primarily engaged in malt liquor brewing including production, packaging, marketing and distribution of its products principally in Malaysia. The Management Team of the Company reviews the financial information as a whole for decision making.

10. Property, Plant and Equipment Valuation

There were no changes in the valuation of property, plant and equipment for the current financial quarter under review.

11. Events Subsequent to the End of the Period

Between the end of the financial quarter under review and the date of this announcement, there has not been any item, transaction or event of a material and unusual nature which, in the opinion of the Directors is likely to affect substantially the results of the operations of the Group for the quarter ended 30 June 2019.

12. Changes in the Composition of the Group

There was no change to the composition of the Group during the financial period under review including business combination, acquisition or disposal of subsidiaries and long-term investments.

13. Changes in Contingent Liabilities or Contingent Assets

There were no material changes in contingent liabilities or contingent assets for the quarter ended 30 June 2019.

As announced by the Company on 3 September 2015, the Company received bills of demand dated 28 August 2015 from the Royal Malaysian Customs of Federal Territory of Kuala Lumpur ("Customs") demanding payment of additional excise duties and sales tax, totaling RM56.3 million.

The amounts in demand were:

- RM34,166,098.81 claimed under the Excise Act 1976, for the period of 28 August 2012 to 31 October 2013.
- RM22,159,456.40 claimed under the Sales Tax Act 1972, for the period of 1 July 2012 to 31 October 2013.

As reported in the Company's financial reports previously, Customs had imposed a new method of valuation for excise duty which came into effect on 1 November 2013. The abovementioned bills of demand are based on historic claims for excise and sales tax for the aforesaid periods. The Company's position is that all excise duties and sales tax for those periods had been paid by the Company based on valuations previously assessed and approved by Customs.

The Company maintains its previous position that the valuation method implemented on 1 November 2013 is not in line with international best practice on rules of valuation. The Company strongly believes that a retrospective application is unjustifiable.

The Company does not admit liability on the bills of demand made by Customs and will take appropriate measures to address this matter. As a result, no provision has been recognised.

The Company will make the necessary announcement on any new development relating to the above matter from time to time.

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 June 2019 are as follows:

	RM'000
Property, plant and equipment	
Authorised and contracted for	36,565

15. Significant Related Party Transactions

As at the end of the quarter under review, the Group has entered into/or completed the following significant Related Party Transactions:

	Heineken N.V. and its related corporations RM'000
Purchase of beverage products, manufacturing and marketing materials	5,100
Sale of beverage products	189
Royalties paid/payable	16,965
Fees paid/payable for professional services relating to technical, marketing and other advisory support	13,134

All Related Party Transactions had been entered into in the ordinary course of business on normal commercial terms. These transactions are within the ambit of the general mandate approved by the shareholders of the Company on 24 May 2019.

16. Review of Performance

Quarter ended 30 June 2019 ("Q2") versus quarter ended 30 June 2018

	3 months ended 30 June 2019 RM'000	3 months ended 30 June 2018 RM'000	% Change +/(-)
Revenue	512,575	421,569	22%
Profit before tax	85,476	73,478	16%

Group revenue grew by 22% as compared to the same quarter in 2018, mainly attributed to higher sales volume driven by all core brands. Excluding the Sales and Services Tax ("SST") impact, the Group revenue grew by 15%.

Group profit before tax ("PBT") rose 16% on the back of revenue growth, partially impacted by higher commercial spend including the preparation for new product launches planned for the third quarter ending 30 September 2019.

6 months ended 30 June 2019 versus the same period in 2018

	6 months ended 30 June 2019 RM'000	6 months ended 30 June 2018 RM'000	% Change +/(-)
Revenue	1,037,715	855,382	21%
Profit before tax	155,916	137,631	13%

Group revenue increased by 21% as compared to the same period in 2018, mainly driven by robust sales performance for the festive period in the first quarter of 2019 and the continued growth of core brands in Q2. Excluding the SST impact, the Group revenue grew by 14%.

Group PBT grew 13% in tandem with the increase of revenue, partially impacted by the higher commercial spend mentioned above for Q2.

16. Review of Performance (continued)

Quarter ended 30 June 2019 versus 31 March 2019 ("Q1")

	3 months ended 30 June 2019 RM'000	3 months ended 31 March 2019 RM'000	% Change +/(-)
Revenue	512,575	525,140	-3%
Profit before tax	85,476	70,440	21%

Group revenue was 3% lower compared to Q1, mainly due to higher sales in Q1 which was driven by festive period.

Group PBT grew 21%, primarily attributed to effective commercial spend and supported by supply chain cost efficiency.

17. Prospects

Given the intense competition and the continued threat from contraband beer, the Group is cautiously optimistic in what remains a challenging external environment and it expects consumer sentiment to stay below the optimism threshold impacted by rising cost of living.

The Group will continue to prioritise on strengthening its commercial execution across its route-to-market whilst sharpening the channel focus and accelerating growth of our innovation products.

The good efforts by the Royal Malaysian Customs and other law enforcement agencies have contributed to the decline of the illicit and duty not paid market. The Group will continue to support the Government's initiatives aimed at eradicating illicit alcohol and raise awareness of the matter through proactive engagements with relevant enforcement authorities, trade partners and consumers.

18. Variance from Profit Forecast

No profit forecast was issued during the financial quarter under review.

19. Taxation

Taxation in respect of the current financial quarter and period ended 30 June 2019 comprises the following:

	3 months ended 30 June 2019 RM'000	6 months ended 30 June 2019 RM'000
Taxation		
Malaysian - current	19,786	37,420
Deferred taxation		
Malaysian - current	(6)	(6)
	19,780	37,414

The Group's effective tax rate for the current financial quarter and period under review is broadly in line with the statutory tax rate.

19. Taxation (Continued)

Tax paid reported in the Consolidated Statement of Cash Flow for the financial quarter ended 30 June 2019 is higher compared to same quarter last year, mainly due to unutilised tax credit from prior years being used to offset the tax payment for 2018 where else there was none in 2019.

20. Status of Corporate Proposals

There were no corporate proposals which have not been completed at the date of this report.

21. Group Borrowings and Debt Securities

During the financial quarter under review, the Group fully repaid the trade financing amounted to RM50,000,000.

22. Financial Instruments

The outstanding derivatives at the end of the reporting period are as follows:

	Notional value RM'000	Fair Value RM'000	Loss arising from fair value changes RM'000
Forward foreign exchange contracts			
- Less than one year	963	957	6

The above forward foreign exchange contracts were entered into by the Group to minimise its exposure to foreign currency risks as a result of transactions denominated in currencies other than its functional currency, arising from the normal business activities; in accordance with the Group's foreign currency hedging policy.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign currency differences arising on retranslation are recognised in comprehensive income, except for differences arising on the retranslation of a financial instrument designated as a hedge of currency risk, which is recognised in other comprehensive income.

There is minimal credit and market risk as the forward contracts are executed with the Group's relationship financial institutions, namely Citibank Berhad, BNP Paribas Berhad and HSBC Bank Malaysia Berhad. The Group is of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

23. Notes to the Statement of Comprehensive Income

	6 months ended 30 June 2019 RM'000
Depreciation and amortization	26,726
Provision for and write off of inventories	710
Loss on derivatives	6

Other than the items highlighted above which have been included in the Consolidated Statement of Comprehensive Income, there were no impairment of assets nor profits/losses on any other items and sale of quoted securities, investments and properties included in the results for the quarter ended 30 June 2019.

24. Material Litigation

Neither the Company nor any of its subsidiaries is engaged in any material litigation either as plaintiff or as defendant as of the date of this report.

25. Dividend

The Board has declared a single tier interim dividend of 42 sen per stock unit for the financial year ending 31 December 2019 (6 months ended 30 June 2018: 40 sen interim dividend) to be paid on 25 October 2019. The entitlement date for the dividend payment is 26 September 2019.

A Depositor shall qualify for entitlement only in respect of:

(a) Shares deposited into the Depositor's securities account before 12.30 p.m. on 24 September 2019 (in respect of shares which are exempted from mandatory deposit);
(b) Shares transferred into the Depositor's securities account before 4.30 p.m. on 26 September 2019 in respect of ordinary transfers; and
(c) Shares bought on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

Total dividend declared for the 6 months ended 30 June 2019 is 42 sen per stock unit (6 months ended 30 June 2018 : 40 sen interim dividend).

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 6 months ended 30 June 2019 is calculated by dividing the net profit attributable to the shareholders of RM65,696,000 by the weighted average number of ordinary stock units outstanding as at 30 June 2019 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Roland Bala
Managing Director

20 August 2019