



HEINEKEN MALAYSIA BERHAD

Company No. 196401000020 (5350-X)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER AND YEAR ENDED 31 DECEMBER 2019

The Board of Directors of Heineken Malaysia Berhad (“the Company”) wishes to announce the unaudited results of the Group for the quarter and year ended 31 December 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL PERIOD 3 MONTHS ENDED			CUMULATIVE PERIOD 12 MONTHS ENDED		
	31/12/2019	31/12/2018	% Change +/-	31/12/2019	31/12/2018	% Change +/-
	RM'000	RM'000		RM'000	RM'000	
1. Revenue	680,000	662,281	3%	2,320,249	2,029,672	14%
2. Operating expenses	(558,779)	(516,264)		(1,905,849)	(1,646,538)	
3. Operating profit	121,221	146,017	-17%	414,400	383,134	8%
4. Interest income/(expense)	(1,094)	(625)		(2,272)	(2,370)	
5. Profit before tax	120,127	145,392	-17%	412,128	380,764	8%
6. Taxation	(28,959)	(45,395)		(99,159)	(98,244)	
7. Net profit for the period	<u>91,168</u>	<u>99,997</u>	-9%	<u>312,969</u>	<u>282,520</u>	11%
8. Profit attributable to owners of the Company	<u>91,168</u>	<u>99,997</u>		<u>312,969</u>	<u>282,520</u>	
9. Total comprehensive income attributable to owners of the Company	<u>91,168</u>	<u>99,997</u>		<u>312,969</u>	<u>282,520</u>	
10. Earnings per share :						
(a) Basic (based on 302,098,000 stock units) (sen)	30.18	33.10		103.60	93.52	
(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 the year ended 31 December 2018.

HEINEKEN MALAYSIA BERHAD

Company No. 196401000020 (5350-X)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 31 December 2019 RM'000	AUDITED AS AT 31 December 2018 RM'000
Non-current assets		
Property, plant and equipment	340,897	292,940
Intangible assets	20,593	21,294
Right-of-use assets	18,499	-
Deferred tax assets	-	1,266
Other receivables	16,137	20,624
	<u>396,126</u>	<u>336,124</u>
Current assets		
Inventories	74,463	90,037
Trade and other receivables	594,276	491,986
Current tax assets	15,231	9,593
Cash and cash equivalents	15,067	12,583
	<u>699,037</u>	<u>604,199</u>
Current liabilities		
Trade and other payables	532,023	414,218
Current tax liabilities	25,213	16,354
Lease liabilities	4,303	-
Borrowings	98,000	105,000
	<u>659,539</u>	<u>535,572</u>
Net current assets	<u>39,498</u>	<u>68,627</u>
	<u>435,624</u>	<u>404,751</u>
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	243,052	220,098
Shareholders' funds	<u>394,101</u>	<u>371,147</u>
Non-current liabilities		
Deferred tax liabilities	38,321	33,604
Lease liabilities	3,202	-
	<u>41,523</u>	<u>33,604</u>
	<u>435,624</u>	<u>404,751</u>
Net Assets per share attributable to owners of the Company (RM)	<u>1.30</u>	<u>1.23</u>

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	YEAR ENDED 31 December 2019 RM'000	YEAR ENDED 31 December 2018 RM'000
Cash flows from operating activities		
Profit before tax	412,128	380,764
Adjustments for:		
Amortisation of intangible assets	7,437	6,395
Depreciation of property, plant and equipment	49,247	39,262
Loss on disposal of property, plant and equipment	6,398	3,379
Amortisation of prepaid contractual promotion expenses	46,442	52,334
Interest expense	3,644	3,619
Interest Income	(1,372)	(1,249)
Unrealised foreign exchange differences	(109)	(433)
Operating profit before changes in working capital	523,815	484,071
Movements in working capital		
Inventories	15,574	(23,138)
Receivables, deposits and prepayment	(144,245)	(54,376)
Payables and accruals	117,915	48,634
Cash generated from operations	513,059	455,191
Tax paid	(89,957)	(85,460)
Interest paid	(3,644)	(3,619)
Net cash from operating activities	419,458	366,112
Cash flows from investing activities		
Acquisition of property, plant and equipment	(109,971)	(95,071)
Acquisition of intangible assets	(6,737)	(4,449)
Interest received	1,372	1,249
Proceeds from disposal of property, plant and equipment	483	1,325
Net cash used in investing activities	(114,853)	(96,946)
Cash flows from financing activity		
Dividends paid	(290,014)	(271,888)
Lease commitment paid	(5,107)	-
Repayment/(Drawdown) of borrowings	(7,000)	4,000
Net cash used in financing activity	(302,121)	(267,888)
Net change in cash and cash equivalents	2,484	1,278
Cash and cash equivalents at beginning of year	12,583	11,305
Cash and cash equivalents at end of period	15,067	12,583

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

	Attributable to equity holders of the Company			
	<i>Non-Distributable</i>	<i>Distributable</i>		
	Share Capital	Capital Reserve	Retained Earnings	Total
	RM'000	RM'000	RM'000	RM'000
Year ended				
<u>31 December 2019</u>				
Balance at 1 January 2019	151,049	-	220,097	371,146
Total comprehensive income for the period	-	-	312,969	312,969
Dividends paid / payable	-	-	(290,014)	(290,014)
Balance at 31 December 2019	151,049	-	243,052	394,101
Year ended				
<u>31 December 2018</u>				
Balance at 1 January 2018	151,049	-	209,466	360,515
Total comprehensive income for the period	-	-	282,520	282,520
Dividends paid / payable	-	-	(271,888)	(271,888)
Balance at 31 December 2018	151,049	-	220,098	371,147

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 adopted 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

Save for the adoption of MFRS 16 : “Leases” as disclosed under Note 1, 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

	Year ended 31 December 2019 RM'000	Year ended 31 December 2018 RM'000
<u>Final Dividend</u>		
For year ended 31 December 2018		
54 sen per stock unit tax exempt paid on 19 July 2019	163,133	
For year ended 31 December 2017		
50 sen per stock unit tax exempt paid on 6 June 2018		151,049
<u>Interim Dividend</u>		
For year ended 31 December 2019		
42 sen per stock unit tax exempt paid on 25 October 2019	126,881	
For year ended 31 December 2018		
40 sen per stock unit tax exempt paid on 25 October 2018		120,839
	290,014	271,888

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 31 December 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 31 December 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.

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13. Changes in Contingent Liabilities or Contingent Assets (Continued)

On 17 February 2020, the Company received a letter dated 3 February 2020 from the Royal Malaysian Customs of Putrajaya notifying the Company on the following decision of Customs regarding its bills of demand dated 28 August 2015:

- (i) The bill of demand for payment of sales tax amounting to RM14,772,970.95 and the penalty amounting to RM7,386,485.45 for the period of 1 July 2012 to 31 October 2013 is cancelled with effect from 15 January 2020.
- (ii) The bill of demand for payment of excise duties amounting to RM34,166,098.81 for the period from 28 August 2012 to 31 October 2013 remains unchanged, and the Company is required to settle the payment for the said excise duties soonest possible.

Based on legal and tax advice, there are solid grounds for the Company to object the basis of the bill of demand for the payment of excise duties. The Company will continue to engage Customs to seek an amicable solution to resolve this matter soonest possible.

The Company will make the necessary announcement on any material developments relating to the above matter, as and when appropriate.

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 December 2019 are as follows:

	<u>RM'000</u>
Property, plant and equipment Authorised and contracted for	<u>11,673</u>

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	10,664
Sale of beverage products	433
Royalties paid/payable	39,987
Fees paid/payable for professional services relating to technical, marketing and other advisory support	22,663

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 31 December 2019 ("Q4") versus quarter ended 31 December 2018

	3 months ended 31 December 2019 RM'000	3 months ended 31 December 2018 RM'000	% Change + / (-)
Revenue	680,000	662,281	3%
Profit before tax	120,127	145,392	-17%

Group revenue grew modestly by 3% as compared to the same quarter in 2018, mainly driven by improved sales performance across all core brands and new product launches.

Group profit before tax ("PBT") was 17% lower compared to the same quarter in 2018. The lower reported profit was mainly due to higher commercial spend as a result of the following:

- (i) phasing of marketing spend for the launch of Tiger Crystal and Heineken 0.0; and
- (ii) earlier 2020 Chinese New Year festive sell-in.

12 months ended 31 December 2019 versus the same period in 2018

	12 months ended 31 December 2019 RM'000	12 months ended 31 December 2018 RM'000	% Change + / (-)
Revenue	2,320,249	2,029,672	14%
Profit before tax	412,128	380,764	8%

Group revenue increased by 14% to RM2.32 billion as compared to the same period in 2018, driven by robust sales performance of the core brands and new product launches. Excluding the Sales & Services Tax impact, the Group revenue grew by 10%.

On the back of the solid revenue growth, Group PBT rose 8% supported by improved cost efficiency.

Q4 versus quarter ended 30 September 2019 ("Q3")

	3 months ended 31 December 2019 RM'000	3 months ended 30 September 2019 RM'000	% Change + / (-)
Revenue	680,000	602,534	13%
Profit before tax	120,127	136,085	-12%

Group revenue rose 13% as compared to Q3, attributed to the same reasons mentioned above.

However, Group PBT eased by 12%, mainly due to higher commercial spend incurred for pre-Chinese New Year festive activation.

17. Prospects

The Group expects the business environment to remain challenging amidst uncertainties in economic conditions, continuous competitive pressures and presence of contraband beer in the market. Nevertheless, riding on the strong foundation that the Group has laid in the past, coupled with investment in brands and new product launches, the Group will continue to pursue sustainable growth by sharpening its commercial execution and driving effective cost management across the organisation.

The Group commends the Government for its on-going efforts in addressing illicit alcohol activities, which have contributed to a significant reduction in contraband beer, as well as its move to keep excise duties on beer stable, with excise duties already the second highest in the world. The Group will continue to support the Government's move against illicit alcohol and drive awareness on this issue through proactive engagements with relevant stakeholders including 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 31 December 2019 comprises the following:

	3 months ended 31 December 2019 RM'000	12 months ended 31 December 2019 RM'000
Taxation		
Malaysian – current	24,284	94,364
Malaysian – Prior	(1,188)	(1,188)
Deferred taxation		
Malaysian – current	7,447	7,567
Malaysian – Prior	(1,584)	(1,584)
	28,959	99,159

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

Tax paid reported in the Consolidated Statement of Cash Flow for the year ended 31 December 2019 is higher compared to 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.

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21. Group Borrowings and Debt Securities

Total Group borrowing as at 31 December 2019 are as follow:

	As at 31 December 2019 RM'000	As at 31 December 2018 RM'000
<u>Current – Unsecured</u>		
Trade financing	98,000	105,000
	98,000	105,000

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	240	235	5

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

	3 months ended 31 December 2019 RM'000	12 months ended 31 December 2019 RM'000
Depreciation and amortization	16,706	56,684
Provision for and write-off of inventories	966	2,696
(Gain)/Loss on derivatives	(10)	5

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 31 December 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 proposed a single tier final dividend of 66 sen per stock unit for the year ended 31 December 2019 (31 December 2018 : 54 sen per stock unit, single tier). Total dividend for the year ended 31 December 2019 is 108 sen per stock unit comprising:

- (i) a single tier interim dividend of 42 sen per stock unit which was paid on 25 October 2019; and
- (ii) a proposed single tier final dividend of 66 sen per stock unit.

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the date of which will be announced later, the single tier final dividend will be paid on 17 July 2020 to stockholders registered at the close of business on 30 June 2020. The entitlement date shall therefore be 30 June 2020.

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 30 June 2020 (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 2 July 2020 in respect of ordinary transfers; and
- (c) Shares bought on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

Pursuant to FRS 110, the proposed single tier final dividend totaling RM199,384,680 has not been accounted for in the financial statements as at 31 December 2019.

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the year ended 31 December 2019 is calculated by dividing the net profit attributable to the shareholders of RM312,969,000 by the weighted average number of ordinary stock units outstanding as at 31 December 2019 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Roland Bala

Managing Director

21 February 2020