HEINEKEN

HEINEKEN MALAYSIA BERHAD

Company No. 196401000020 (5350-X)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

The Board of Directors of Heineken Malaysia Berhad ("the Company") wishes to announce the unaudited results of the Group for the quarter ended 31 March 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL PERIOD 3 MONTHS ENDED			**CUMULATIVE PERIOD 3 MONTHS ENDED**		
		31/03/2020	**31/03/2019**	% Change +/(-)	**31/03/2020**	**31/03/2019**	% Change +/(-)
		RM'000	**RM'000**		**RM'000**	**RM'000**	
1.	Revenue	515,887	525,140	-1.8%	515,887	525,140	-1.8%
2.	Operating expenses	(440,177)	(453,731)		(440,177)	(453,731)	
3.	Operating profit	**75,710**	**71,409**	6%	**75,710**	**71,409**	6%
4.	Interest income/(expense)	(857)	(969)		(857)	(969)	
5.	Profit before tax	74,853	70,440	6.3%	74,853	70,440	6.3%
6.	Taxation	(17,889)	(17,634)		(17,889)	(17,634)	
7.	Net profit for the period	56,964	52,806	7.9%	56,964	52,806	7.9%
8.	Profit attributable to owners of the Company	56,964	52,806		56,964	52,806	
9.	Total comprehensive income attributable to owners of the Company	56,964	52,806		56,964	52,806	
10.	Earnings per share :						
(a)	Basic (based on 302,098,000 stock units) (sen)	18.86	17.48		18.86	17.48	
(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 2019.

HEINEKEN MALAYSIA BERHAD
Company No. 196401000020 (5350-X)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 31 March 2020 RM'000	AUDITED AS AT 31 December 2019 RM'000
Non-current assets		
Property, plant and equipment	340,985	341,302
Intangible assets	18,831	20,593
Right-of-use asset	19,832	18,499
Deferred tax assets	-	-
Other receivables	13,202	16,136
	392,850	396,530
Current assets		
Inventories	143,461	73,845
Trade and other receivables	442,431	599,846
Current tax assets	8,747	14,704
Cash and cash equivalents	292,642	15,068
	887,281	703,463
Current liabilities		
Trade and other payables	414,981	531,370
Current tax liabilities	28,924	30,697
Lease liabilities	4,494	4,303
Borrowings	338,000	98,000
	786,399	664,370
Net current assets	100,882	39,093
	493,732	435,623
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	300,016	243,052
Shareholders' funds	451,065	394,101
Non-current liabilities		
Deferred tax liabilities	38,244	38,321
Lease liabilities	4,423	3,201
	42,667	41,522
	493,732	435,623
Net Assets per share attributable to owners of the Company (RM)	1.49	1.30

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 2019.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	3 MONTHS ENDED 31 March 2020 RM'000	3 MONTHS ENDED 31 March 2019 RM'000
Cash flows from operating activities		
Profit before tax	74,853	70,440
Adjustments for:		
Amortisation of intangible assets	2,021	1,433
Depreciation of property, plant and equipment	14,184	11,661
Loss/(Gain) on disposal of property, plant and equipment	1,303	1,179
Amortisation of prepaid contractual promotion expenses	12,698	11,650
Interest expense	1,255	1,256
Interest Income	(398)	(287)
Unrealised foreign exchange differences	645	(189)
Operating profit before changes in working capital	106,561	97,143
Movements in working capital		
Inventories	(69,211)	30,505
Receivables, deposits and prepayment	147,650	1,152
Payables and accruals	(123,046)	(13,629)
Cash generated from operations	61,954	115,171
Tax paid	(7,771)	(20,230)
Interest paid	(1,255)	(1,256)
Net cash from operating activities	52,928	93,685
Cash flows from investing activities		
Acquisition of property, plant and equipment	(14,515)	(12,471)
Acquisition of intangible assets	(51)	(20)
Interest received	398	287
Proceeds from disposal of property, plant and equipment	170	223
Net cash used in investing activities	(13,998)	(11,981)
Cash flows from financing activity		
Dividends paid	-	-
Lease commitment paid	(1,356)	(1,247)
Increase in/(Repayment of) borrowings	240,000	(55,000)
Net cash from / used in financing activity	238,644	(56,247)
Net change in cash and cash equivalents	277,574	25,457
Cash and cash equivalents at beginning of year	15,068	12,583
Cash and cash equivalents at end of period	292,642	38,040

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 2019.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			
	Non-Distributable		*Distributable*	
	Share Capital RM'000	Capital Reserve RM'000	Retained Earnings RM'000	Total RM'000
3 months ended **<u>31 March 2020</u>**				
Balance at 1 January 2020	151,049	-	243,052	394,101
Total comprehensive income for the period	-	-	56,964	56,964
Dividends paid / payable	-	-	-	-
Balance at 31 March 2020	**151,049**	**-**	**300,016**	**451,065**
3 months ended **<u>31 March 2019</u>**				
Balance at 1 January 2019	151,049	-	220,097	371,146
Total comprehensive income for the period	-	-	52,806	52,806
Dividends paid / payable	-	-	-	-
Balance at 31 March 2019	**151,049**	**-**	**272,903**	**423,952**

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 2019.

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 2019.

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 2019 save for the adoption of the following new Malaysian Financial Reporting Standards ("MFRS") and Interpretations, and amendments to certain MFRSs and Interpretations with effect from 1 January 2020:

(i) Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
(ii) Amendments to MFRS 3 Business Combinations – Definition of a Business
(iii) Amendments to MFRS 7 Financial Instruments: Disclosures, MFRS 9 Financial Instruments and MFRS 139: Financial Instruments: Recognition and Measurement – Interest Rate Benchmark Reform.

The adoption of the above amendments did not have any material effect on the financial statements of the Group.

3. **Audit Report on Preceding Annual Financial Statements**

The Group annual audited financial statements for the year ended 31 December 2019 were not qualified.

4. **Seasonal or Cyclical Factors**

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

5. **Exceptional Items**

During the current financial quarter under review, the Sungei Way Brewery suspended its operations to comply with the Movement Control Order ("MCO") imposed by the Government effective 18 March 2020 to contain the spread of the Covid-19 infection in the country. The operations of some of our main customers were also disrupted due to the MCO which have been further extended. The prolonged shutdown in operations has resulted in inventory stuck in closed stores which may potentially be subject to disposal given the products have limited shelf life. In light of this, the Group has increased its provision for write-off of inventories during the financial quarter under review.

6. **Changes in Estimates**

Save for the increase in provision for write-off of inventories as disclosed under Note 5, 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 31 March 2020.

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

As per the Company's announcements dated 24 March 2020, 7 April 2020 and 16 April 2020, the Company temporarily suspended the operations of the Sungei Way Brewery to comply with the MCO which came into force on 18 March 2020.

On 1 May 2020, the Government announced the enforcement of a Conditional MCO allowing almost all industries and business activities to resume operations beginning 4 May 2020 subject to strict adherence to the standard operating procedures enforced by the relevant authorities. In line with this and having considered the business impact of the prolonged restrictions of the MCO, the Company has decided to resume operations and business activities of the Group in phases with effect from 4 May 2020, focusing on critical operations at the Sungei Way Brewery, head office and sales offices that are allowed to operate. Essential employees are required to return to work at the brewery and various offices whilst non-essential employees are to continue to operate from home during the Conditional MCO period. This will allow the Group employees time to adjust and adapt to the new normal with various safety and health standard operating procedures that the Group has put in place.

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

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.

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

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.

On 17 February 2020, the Company received a letter dated 3 February 2020 from the Royal Malaysian Customs ("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 March 2020 are as follows:

	RM'000
Property, plant and equipment	
Authorised and contracted for	31,199

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:

15. Significant Related Party Transactions (Continued)

	Heineken N.V. and its related corporations RM'000
Purchase of beverage products, manufacturing and marketing materials	2,599
Royalties paid/payable	8,713
Fees paid/payable for professional services relating to technical, marketing and other advisory support	6,343

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 March 2020 ("Q1") versus quarter ended 31 March 2019

	3 months ended 31 March 2020 RM'000	3 months ended 31 March 2019 RM'000	% Change +/(-)
Revenue	515,887	525,140	-1.8%
Profit before tax	74,853	70,440	6.3%

Group revenue declined by 1.8% compared to the same quarter in 2019, mainly due to lower sales in March 2020 which registered a 50% drop following the temporary suspension of operations of Sungei Way Brewery to comply with the MCO effective 18 March 2020.

However, Group profit before tax ("PBT") grew 6.3% driven by effective Chinese New Year festive campaigns executed in January 2020 and February 2020, ahead of the price adjustment implemented on selected products effective 1 March 2020, as well as the more efficient commercial spend during the quarter.

Quarter ended 31 March 2020 versus 31 December 2019

	3 months ended 31 March 2020 RM'000	3 months ended 31 December 2019 RM'000	% Change +/(-)
Revenue	515,887	680,000	-24%
Profit before tax	74,853	120,127	-37%

Group revenue and PBT decreased by 24% and 37% respectively, principally due to:

- Higher sales in the previous quarter driven by a successful year-end festive season
- Early sell-in for Chinese New Year this year; and
- Lower sales in March 2020 due to the suspension of operations of the brewery effective 18 March 2020.

17. Prospects

The on-going Covid-19 pandemic and the containment measures, including the mandatory closure of non-essential business activities imposed by the Government and social distancing measures, continue to post unprecedented challenges to on-trade businesses and consumers' purchasing power. This, as well as the closure of the brewery from 18 March 2020 to 3 May 2020, resulted in a material decline in our revenue and the disruption from this is expected to persist and continue to have a significant adverse impact on the overall business performance of the Group for the financial year 2020.

The Board has stress-tested the Group's balance sheet, profit and loss and cash flow across multiple scenarios. Notwithstanding, the strong balance sheet at the end of Q1, Group operating cash flow is expected to be significantly impacted in the second quarter and over the rest of the financial year given slower cash collections from the trade and weak demand particularly from the on-trade and tourism channels.

In order to mitigate the impact on the Group business, various initiatives have been implemented to accelerate business activities and improve operational efficiency to protect the Group profitability and preserve cash. These include:

- Aggressive cost saving measures which include revision of commercial and marketing spend.
- Optimising working capital management and utilising borrowing facilities to ensure the ongoing liquidity of the Group.
- Acceleration of e-commerce channel and digital campaigns.
- Continuing to support key stakeholders to restart their respective business.
- Actionable and pragmatic commercial initiatives to meet the new business conditions.

The Covid-19 crisis is expected to have far reaching impact on both health and the economy, with many uncertainties as the crisis continues to unfold. The Group remains committed to mitigate as much as possible the impacts on the business by continued implementation of safety and health standard operating procedures to prevent infection, ensuring the safety and well-being of our people, aligning our commercial strategies to adapt to the new reality, and keeping a very tight rein on our cost base. This should ensure that the Group is well placed when economic activities normalise and the industry recovers.

The Board will continue to navigate the challenges ahead supported by the strong fundamentals built at the company over many years. The Board would like to thank all colleagues for their hard work and dedication, as well as our stakeholders for their continued support through this challenging time.

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 comprises the following:

	3 months ended 31 March 2020 RM'000
Taxation : Malaysian - Current	17,965
Deferred taxation : Malaysian - current	(76)
	17,889

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

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

Total group borrowing as at 31 March 2020 are as follow:

	As at 31 March 2020 RM'000
Current - Unsecured	
Trade financing	180,000
Revolving credit	158.000
	338,000

The tenure for the above borrowings is between 4 to 26 weeks. During the quarter under review, the Group has drawn down available credit facilities and also secured additional financing facilities from the Group's relationship financial institutions for working capital purposes.

22. Financial Instruments

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

	Notional value RM'000	Fair Value RM'000	Gain arising from fair value changes RM'000
Forward foreign exchange contracts			
- Less than one year	648	664	16

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 March 2020 RM'000
Depreciation and amortization	16,205
Provision for and write off of inventories	7,067
Gain on derivatives	16

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 March 2020.

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 of Directors does not recommend any dividend in respect of the quarter ended 31 March 2020.

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 3 months ended 31 March 2020 is calculated by dividing the net profit attributable to the shareholders of RM56,964,000 by the weighted average number of ordinary stock units outstanding as at 31 March 2020 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Roland Bala
Managing Director
19 May 2020