



HEINEKEN MALAYSIA BERHAD

Company No. 196401000020 (5350-X)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2020

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 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL PERIOD 3 MONTHS ENDED			CUMULATIVE PERIOD 6 MONTHS ENDED		
	30/06/2020	30/06/2019	% Change +/(–)	30/06/2020	30/06/2019	% Change +/(–)
	RM'000	RM'000		RM'000	RM'000	
1. Revenue	253,742	512,575	-50.5%	769,629	1,037,715	-25.8%
2. Operating expenses	(276,311)	(427,299)		(716,488)	(881,030)	
3. Operating profit/(loss)	(22,569)	85,276	-126.5%	53,141	156,685	-66.1%
4. Interest income/(expense)	(1,436)	200		(2,293)	(769)	
5. Profit/(loss) before tax	(24,005)	85,476	-128.1%	50,848	155,916	-67.4%
6. Taxation	5,812	(19,780)		(12,077)	(37,414)	
7. Net profit/ (loss) for the period	<u>(18,193)</u>	<u>65,696</u>	-127.7%	<u>38,771</u>	<u>118,502</u>	-67.3%
8. Profit/(loss) attributable to owners of the Company	<u>(18,193)</u>	<u>65,696</u>		<u>38,771</u>	<u>118,502</u>	
9. Total comprehensive income/(loss) attributable to owners of the Company	<u>(18,193)</u>	<u>65,696</u>		<u>38,771</u>	<u>118,502</u>	
10. Earnings/(Loss) per share :						
(a) Basic (based on 302,098,000 stock units) (sen)	(6.02)	21.75		12.83	39.23	
(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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 30 June 2020 RM'000	AUDITED AS AT 31 December 2019 RM'000
Non-current assets		
Property, plant and equipment	331,543	341,302
Intangible assets	18,831	20,593
Right-of-use asset	19,173	18,499
Deferred tax assets	-	-
Other receivables	8,282	16,136
	<u>377,829</u>	<u>396,530</u>
Current assets		
Inventories	92,643	73,845
Trade and other receivables	443,330	599,846
Current tax assets	11,844	14,704
Cash and cash equivalents	282,660	15,068
	<u>830,477</u>	<u>703,463</u>
Current liabilities		
Trade and other payables	364,643	531,370
Current tax liabilities	26,260	30,697
Lease liabilities	4,400	4,303
Borrowings	338,000	98,000
	<u>733,303</u>	<u>664,370</u>
Net current assets	<u>97,174</u>	<u>39,093</u>
	<u>475,003</u>	<u>435,623</u>
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	281,823	243,052
Shareholders' funds	<u>432,872</u>	<u>394,101</u>
Non-current liabilities		
Deferred tax liabilities	38,194	38,321
Lease liabilities	3,937	3,201
	<u>42,131</u>	<u>41,522</u>
	<u>475,003</u>	<u>435,623</u>
Net Assets per share attributable to owners of the Company (RM)	1.43	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 FOR THE 6 MONTHS ENDED 30 JUNE 2020

	6 MONTHS ENDED 30 June 2020 RM'000	6 MONTHS ENDED 30 June 2019 RM'000
Cash flows from operating activities		
Profit before tax	50,848	155,916
Adjustments for:		
Amortisation of intangible assets	4,105	3,458
Depreciation of property, plant and equipment	28,676	23,268
Loss on disposal of property, plant and equipment	1,490	2,947
Amortisation of prepaid contractual promotion expenses	14,060	26,821
Interest expense	4,312	1,510
Interest Income	(2,019)	(741)
Unrealised foreign exchange differences	307	170
Operating profit before changes in working capital	101,779	213,349
Movements in working capital		
Inventories	(18,393)	32,366
Receivables, deposits and prepayment	150,310	(4,568)
Payables and accruals	(173,046)	4,483
Cash generated from operations	60,650	245,630
Tax paid	(7,770)	(40,459)
Interest paid	(4,312)	(1,510)
Net cash from operating activities	48,568	203,661
Cash flows from investing activities		
Acquisition of property, plant and equipment	(19,873)	(37,738)
Acquisition of intangible assets	(761)	(939)
Interest received	2,019	741
Proceeds from disposal of property, plant and equipment	175	255
Net cash used in investing activities	(18,440)	(37,681)
Cash flows from financing activity		
Lease commitment paid	(2,536)	(2,470)
Increase in/(Repayment of) borrowings	240,000	(105,000)
Net cash from/used in financing activity	237,464	(107,470)
Net change in cash and cash equivalents	267,592	58,510
Cash and cash equivalents at beginning of year	15,068	12,583
Cash and cash equivalents at end of period	282,660	71,093

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 FOR THE 6 MONTHS ENDED 30 JUNE 2020

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
6 months ended 30 June 2020				
Balance at 1 January 2020	151,049	-	243,052	394,101
Total comprehensive income for the period	-	-	38,771	38,771
Balance at 30 June 2020	151,049	-	281,823	432,872
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

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

The suspension of operations of the Sungei Way Brewery from 18 March 2020 to 3 May 2020 to comply with the Movement Control Order (“MCO”) enforced by the Government has a significant adverse impact on the overall business performance of the Group. In an effort to mitigate the impact to the Group business and to protect the Group profitability and preserve cash, the Group had embarked on various cost saving measures which include, among others, revision of commercial and marketing spend and rationalization of brand promoter headcount which has led to a streamlined cost base for 2020. The operating expenses for the financial quarter under review as compared to the same period of last year was lower by 35%.

6. Changes in Estimates

Save for the increase in provision for write-off of inventories as disclosed in the Financial Report for the first quarter ended 31 March 2020, 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 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

There were no other events subsequent to the current financial quarter ended 30 June 2020 up to the date of this financial report that have not been reflected in this financial report, which may substantially affect the results of the operations of the Group.

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 12 June 2020, the Company had on, 11 June 2020, resolved the matter with Royal Malaysian Customs ("Customs") in respect of the Customs' Bills of Demand dated 28 August 2015.

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 June 2020 are as follows:

	<u>RM'000</u>
Property, plant and equipment Authorised and contracted for	20,633

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
Sales of beverage products	4
Purchase of beverage products, manufacturing and marketing materials	4,486
Royalties paid/payable	11,795
Fees paid/payable for professional services relating to technical, marketing and other advisory support	11,798

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 2020 versus quarter ended 30 June 2019

	3 months ended 30 June 2020 RM'000	3 months ended 30 June 2019 RM'000	% Change + / (-)
Revenue	253,742	512,575	-50%
Profit / (loss) before tax	(24,005)	85,476	-128%

Group revenue declined by 50% as compared to the same quarter in 2019, mainly due to the prolonged suspension of operations of the Sungei Way Brewery to comply with the MCO enforced by the Government from 18 March 2020 until 3 May 2020 to contain the spread of the Covid-19. Despite the Company resuming its operations and business during the Conditional MCO which took effect from 4 May 2020, the Group business performance particularly in the on-trade channel continue to be adversely impacted. This was mainly because outlets with liquor license such as pubs and entertainment outlets are still prohibited from operating whilst sales in on-trade outlets such as restaurants and coffee shops was slow due to shift in consumption patterns favouring takeout and at-home options amid public concern on the pandemic.

The decline in revenue caused a significant reduction in gross profit contributions, which was insufficient to offset the fixed overhead. Consequently, the Group incurred an unprecedented pre-tax loss of RM24 million in the current quarter under review.

16. Review of Performance (Continued)6 months ended 30 June 2020 versus the same period in 2019

	6 months ended 30 June 2020 RM'000	6 months ended 30 June 2019 RM'000	% Change + / (-)
Revenue	769,629	1,037,715	-26%
Profit before tax	50,848	155,914	-67%

Group revenue declined by 26% as compared to the same period in 2019, mainly due to the 22% decline in beer volume, heavily impacted by the prolonged suspension of our brewery operations from 18 March 2020 until 3 May 2020 to comply with the MCO.

Profit before tax decreased by 67%, versus the same period in 2019, principally due to the same reasons mentioned above.

Quarter ended 30 June 2020 versus 31 March 2020

	3 months ended 30 June 2020 RM'000	3 months ended 31 March 2020 RM'000	% Change + / (-)
Revenue	253,742	515,887	-51%
Profit/(Loss) before tax	(24,005)	74,853	-132%

The substantial decline in the Group performance for the second quarter ended 30 June 2020 versus the preceding quarter was mainly attributed to the suspension of operations of the brewery for the entire month of April up to 3 May 2020. This was despite the gradual improvement in the business activities when sales and distribution activities were ramped up during the months of May and June 2020 following the easing of the movement restrictions.

17. Prospects

With the commencement of the Recovery MCO on 10 June 2020, the Group has seen a gradual improvement and normalisation of the business activity as almost all business sectors are allowed to resume operations. Nevertheless, outlets with liquor license such as pubs and entertainment centres are still prohibited from operating whilst other on-trade outlets such as restaurants, coffee shop and food courts are subject to restrictive operations due to the enforcement of the standard operating procedures set by the Government. This will continue to have an adverse impact on the Group's overall business performance for the rest of 2020. The exact impact of Covid-19 for the full year remains difficult to estimate as it will depend on the duration and the economic consequences of this crisis as well as the speed of recovery of the business.

In view of the challenging times ahead, the Group will continue to prioritise its recovery by accelerating commercial execution and improving operational efficiency through more stringent and prudent cost control measures to ensure liquidity and effective working capital management.

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 2020 comprises the following:

	3 months ended 30 June 2020 RM'000	6 months ended 30 June 2020 RM'000
Taxation		
Malaysian – current	(5,761)	12,204
Deferred taxation		
Malaysian – current	(51)	(127)
	(5,812)	12,077

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 30 June 2020 are as follow:

	As at 30 June 2020 RM'000
<u>Current – Unsecured</u>	
Trade financing	180,000
Revolving credit	158,000
	338,000

The tenure for the above borrowings is between 8 to 26 weeks.

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	38	37	1

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.

HEINEKEN MALAYSIA BERHAD

Company No. 196401000020 (5350-X)

22. Financial Instruments (continued)

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 2020 RM'000
Depreciation and amortization	32,781
Provision for and write off of inventories	6,475
Loss on derivatives	1

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 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 30 June 2020 (previous corresponding period ended 30 June 2019 : 42 sen). In view of the current economic conditions, the Group has adopted a more prudent approach in respect of dividend payment and will re-evaluate the situation at the close of the financial year.

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 6 months ended 30 June 2020 is calculated by dividing the net profit attributable to the shareholders of RM38,771,000 by the weighted average number of ordinary stock units outstanding as at 30 June 2020 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Roland Bala

Managing Director

13 August 2020