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Directors' Report

The directors of **HEINEKEN MALAYSIA BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the production, packaging, marketing and distribution of beverages, primarily alcoholic, whilst the principal activities of the subsidiaries are as stated in Note 13 to the financial statements.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Company for the financial year are as follows:

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	312,968	435,209

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

Since the end of the previous financial year, the amount of dividend paid or proposed by the Company are in respect of the following:

- (i) A final ordinary dividend of 54 sen per stock unit under the single tier tax system totalling RM163,132,920 in respect of the financial year ended 31 December 2018 on 19 July 2019; and
- (ii) An interim ordinary dividend of 42 sen per stock unit under the single tier tax system totalling RM126,881,160 in respect of the financial year ended 31 December 2019 on 25 October 2019.

The directors now recommend the declaration of a final ordinary dividend of 66 sen per stock unit under the single tier system totalling RM199,384,680 in respect of the financial year ended 31 December 2019 which if approved by the owners of the Company will be payable on 17 July 2020.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

Directors' Report

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As at the end of the financial year, there were no unissued shares of the Company under options.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that no known bad debts to be written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

- (a) which would require the writing off of bad debts or render the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; and
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year except as disclosed in Note 25 to the financial statements.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the succeeding financial year.

Directors' Report

DIRECTORS

The directors of the Company in office during the financial year and during the period from the end of the financial year to the date of this report are:

Dato' Sri Idris Jala
 Martin Giles Manen
 Datin Ngiam Pick Ngoh, Linda
 Lim Rern Ming, Geraldine
 Roland Bala
 Yu Yu-Ping
 Evers, Leonard Cornelis Jorden (Appointed on 1 October 2019)
 Choo Tay Sian, Kenneth (Resigned on 1 October 2019)

The directors of the subsidiaries of the Company in office during the financial year and during the period from the end of the financial year to the date of this report are:

Dato' Dominic Joseph Puthuchearu
 Szilard Voros
 Roland Bala
 Renuka a/p V. Indrarajah

DIRECTORS' INTERESTS

The interest in the stock units of the Company of a director at the end of the financial year according to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016, are as follows:

	Number of ordinary stock units			Balance as at 31.12.2019
	Balance as at 1.1.2019	Bought	Sold	
Datin Ngiam Pick Ngoh, Linda	6,700	-	-	6,700

By virtue of the director's interest in the stock units of the Company, she is also deemed to have interest in stock units/shares of the subsidiaries to the extent the Company has an interest.

None of the other directors in office at the end of the financial year held shares or had beneficial interest in the stock units/shares of the Company or its related corporation during or at the beginning and end of the year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, save for the consultancy services fee payable to a director of the Company during the financial year 2019, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as disclosed in the Note 22 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

INDEMNITY OF INSURANCE FOR DIRECTORS AND OFFICERS

The Company maintains a directors and officers liability insurance for the purposes of Section 289 of the Companies Act, 2016, throughout the year, which provides appropriate insurance cover for the directors and officers of the Group. The amount of insurance premium paid during the financial year amounted to RM24,791.

No indemnity was given to or insurance effected for auditors of the Company and the Group during the financial year.

HOLDING CORPORATIONS

The directors regard GAPL Pte. Ltd. ("GAPL") and Heineken Asia Pacific Pte. Ltd. ("HAPPL"), both corporations incorporated in the Republic of Singapore, as the immediate and intermediate holding corporations.

HAPPL is owned by Heineken N.V., a corporation incorporated in the Netherlands, which in turn is the ultimate holding corporation of the Company.

AUDITORS' REMUNERATION

The amount paid/payable as remuneration of the auditors for the financial year ended 31 December 2019 is as disclosed in Note 7 to the financial statements.

AUDITORS

The auditors, Deloitte PLT, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors,

DATO' SRI IDRIS JALA

ROLAND BALA

Petaling Jaya,
21 February 2020

Independent Auditors' Report

To The Members of Heineken Malaysia Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of **HEINEKEN MALAYSIA BERHAD**, which comprise the statements of financial position of the Group and of the Company as at 31 December 2019, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 93 to 141.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

BASIS FOR OPINION

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition - Accruals for promotional allowances and volume rebates

Accounting for promotional allowances and volume rebates impacts the amounts of revenue recognised during the year. The revenue accounting policies are disclosed in Note 3 to the financial statements. Significant management judgement is required to estimate the value of promotional allowances and volume rebates. This estimate is considered to be a key audit matter relevant to our audit of the financial statements.

Our audit response

Our audit procedures included, amongst others, evaluating controls relating to management's process for determining the value of promotional allowances and the volume rebates. In addition, we performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals. These procedures included challenging the appropriateness of management's assumptions and estimates, and agreeing input data, including pricing and allowance data to the underlying agreements entered into with customers. We also compared the actual promotional discounts and rebates incurred against the accrual made in the prior year.

Independent Auditors' Report

To The Members of Heineken Malaysia Berhad (Incorporated in Malaysia)

KEY AUDIT MATTERS (CONTINUED)

Contingent liability on additional excise duty & sales tax

On 3 September 2015, the Company received bills of demand from the Royal Malaysian Customs of Federal Territory of Kuala Lumpur ("RMC") demanding payment on additional excise duty and sales tax totalling RM56,325,555. However, the Company has on 17 February 2020 received an official letter dated 3 February 2020 from RMC notifying that the bill of demand for sales tax amounting to RM14,772,971 and the penalty amounting to RM7,386,485 have been cancelled effective 15 January 2020 while the bill of demand for excise duty amounting to RM34,166,099 remains unchanged.

Based on the legal opinion sought, the directors of the Company are of the view that there are reasonable grounds to appeal for the revocation of the bill of demand for excise duty. The Company will continue to engage the RMC to seek an amicable solution to resolve this matter soonest possible. It is a significant area that our audit focused on because the amount involved is significant and the determination of the amount, if any, to be provided for such disputed liability is inherently subjective.

Our audit response

We obtained an understanding of the status of the bill of demand from RMC through discussion with management. Written representation from management was obtained and we read the legal opinion from the Company's external solicitor on the status of the bill of demand from RMC to corroborate with the Company's assessment of the bill of demand from RMC. We involved our tax specialist in assessing the appropriateness of the tax position as stated in the legal opinion. We considered the appropriateness of disclosure in Note 25 to the financial statements regarding the contingent liability.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Five-Year Financial Indicators, Analysis of Group Revenue, Management Discussion and Analysis, Properties owned by the Group and Directors' Report (but does not include the financial statements of the Group and of the Company and our auditors' report thereon) which we obtained prior to the date of this auditors' report and the Corporate Governance Overview Statement, Audit and Risk Management Committee Report which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information that are expected to be made available to us after the date of this auditors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report

To The Members of Heineken Malaysia Berhad (Incorporated in Malaysia)

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS (CONTINUED)

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Independent Auditors' Report

To The Members of Heineken Malaysia Berhad (Incorporated in Malaysia)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

DELOITTE PLT
(LLP0010145-LCA)
Chartered Accountants (AF0080)

LAI CAN YIEW
Partner - 02179/11/2020 J
Chartered Accountant

21 February 2020

Statements of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue		2,320,249	2,029,672	1,425,875	1,341,787
Cost of sales		(1,611,324)	(1,375,871)	(1,365,619)	(1,273,815)
Gross profit		708,925	653,801	60,256	67,972
Other operating income		10,842	11,339	3,957	2,019
Distribution, marketing and selling expenses		(213,312)	(196,745)	(2,751)	(3,001)
Administrative expenses		(87,296)	(78,752)	(28,242)	(23,385)
Other operating expenses		(4,760)	(6,509)	(4,735)	(4,799)
Dividend income		-	-	413,076	239,299
Results from operating activities		414,399	383,134	441,561	278,105
Finance income	5	1,372	1,249	1,308	1,231
Finance costs	6	(3,644)	(3,619)	(3,310)	(3,619)
Net finance costs		(2,272)	(2,370)	(2,002)	(2,388)
Profit before tax	7	412,127	380,764	439,559	275,717
Income tax expense	8	(99,159)	(98,244)	(4,350)	(14,462)
Profit/Total comprehensive income for the year attributable to:					
Owners of the Company		312,968	282,520	435,209	261,255
Basic/Diluted earnings per ordinary stock unit (sen)	9	103.6	93.5		

The accompanying Notes form an integral part of the Financial Statements.

Statements of Financial Position

As at 31 December 2019

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Non-current Assets					
Property, plant and equipment	10	341,302	292,940	309,657	270,003
Intangible assets	11	20,593	21,294	20,593	21,293
Right-of-use assets	12	18,499	-	13,872	-
Investment in subsidiaries	13	-	-	14,344	14,344
Deferred tax assets	14	-	1,266	-	-
Other receivables and prepaid expenses	15	16,136	20,624	263	655
Total Non-current Assets		396,530	336,124	358,729	306,295
Current Assets					
Inventories	16	73,845	90,037	40,709	31,082
Current tax assets		14,704	9,593	14,704	9,593
Receivables, deposits and prepaid expenses	15	599,846	491,986	162,391	86,133
Cash and bank balances		15,068	12,583	13,668	11,475
Total Current Assets		703,463	604,199	231,472	138,283
Total Assets		1,099,993	940,323	590,201	444,578
Equity					
Share capital	17	151,049	151,049	151,049	151,049
Retained earnings		243,052	220,098	153,900	8,705
Total Equity Attributable To Owners of The Company		394,101	371,147	304,949	159,754
Non-current Liabilities					
Lease liabilities	19	3,201	-	1,095	-
Deferred tax liabilities	14	38,321	33,604	37,372	33,604
Total Non-current Liabilities		41,522	33,604	38,467	33,604
Current Liabilities					
Borrowings	18	98,000	105,000	98,000	105,000
Trade and other payables	20	531,370	414,218	147,108	146,220
Lease liabilities	19	4,303	-	1,677	-
Current tax liabilities		30,697	16,354	-	-
Total Current Liabilities		664,370	535,572	246,785	251,220
Total Liabilities		705,892	569,176	285,252	284,824
Total Equity and Liabilities		1,099,993	940,323	590,201	444,578

The accompanying Notes form an integral part of the Financial Statements.

Statements of Changes in Equity

For The Year Ended 31 December 2019

Group	Note	Share capital RM'000	Distributable - Retained earnings RM'000	Total RM'000
As at 1 January 2018		151,049	209,466	360,515
Total comprehensive income for the year		-	282,520	282,520
Dividends	21	-	(271,888)	(271,888)
As at 31 December 2018/1 January 2019		151,049	220,098	371,147
Total comprehensive income for the year		-	312,968	312,968
Dividends	21	-	(290,014)	(290,014)
As at 31 December 2019		151,049	243,052	394,101
Company				
As at 1 January 2018		151,049	19,338	170,387
Total comprehensive income for the year		-	261,255	261,255
Dividends	21	-	(271,888)	(271,888)
As at 31 December 2018/1 January 2019		151,049	8,705	159,754
Total comprehensive income for the year		-	435,209	435,209
Dividends	21	-	(290,014)	(290,014)
As at 31 December 2019		151,049	153,900	304,949

The accompanying Notes form an integral part of the Financial Statements.

Statements of Cash Flows

For The Year Ended 31 December 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CASH FLOWS FROM/(USED IN)					
OPERATING ACTIVITIES					
Profit before tax		412,127	380,764	439,559	275,717
Adjustments for:					
Amortisation of prepaid contractual promotion expenses		46,442	52,334	-	-
Depreciation of property, plant and equipment	10	43,709	39,262	36,543	32,082
Amortisation of intangible assets	11	7,436	6,395	7,436	6,393
Property, plant and equipment written off	10	6,873	4,496	6,873	4,170
Depreciation of right-of-use assets	12	5,539	-	2,391	-
Finance costs	6	3,644	3,619	3,310	3,619
Inventories written down		2,696	4,617	480	1,171
Net unrealised gain on foreign exchange		(110)	(433)	(128)	(393)
(Gain)/loss on disposal of property, plant and equipment		(476)	(1,117)	(4)	92
Finance income	5	(1,372)	(1,249)	(1,308)	(1,231)
Dividend income from a subsidiary		-	-	(413,076)	(239,299)
Intangible assets written off	11	-	1	-	1
Operating Profit Before Working Capital Changes		526,508	488,689	82,076	82,322
Movement in working capital:					
(Increase)/Decrease in:					
Receivables, deposits and prepaid expenses		(149,814)	(61,530)	(75,866)	(25,383)
Inventories		13,496	(27,755)	(10,107)	(430)
Increase/(Decrease) in trade and other payables		108,731	38,110	(7,515)	47,531
Cash Generated From/(Used In) Operations		498,921	437,514	(11,412)	104,040
Income tax paid		(89,895)	(85,458)	(11,644)	-
Income tax refunded		5,951	-	5,951	-
Interest paid		(3,644)	(3,619)	(3,310)	(3,619)
Net Cash From/(Used In) Operating Activities		411,333	348,437	(20,415)	100,421

Statements of Cash Flows

For The Year Ended 31 December 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM/(USED IN)					
INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	10	(101,846)	(77,394)	(85,965)	(68,409)
Acquisition of intangible assets	11	(6,735)	(4,452)	(6,736)	(4,452)
Interest received		1,372	1,249	1,308	1,231
Proceeds from disposal of property, plant and equipment		483	1,326	4	68
Dividend received		-	-	413,076	239,299
Net Cash (Used In)/From Investing Activities		(106,726)	(79,271)	321,687	167,737
CASH FLOWS FROM/(USED IN)					
FINANCING ACTIVITIES					
Dividends paid	21	(290,014)	(271,888)	(290,014)	(271,888)
(Repayment)/Drawdown of trade financing - net		(7,000)	4,000	(7,000)	4,000
Repayment of lease liabilities		(5,108)	-	(2,065)	-
Net Cash Used In Financing Activities		(302,122)	(267,888)	(299,079)	(267,888)
NET INCREASE IN CASH AND BANK BALANCES		2,485	1,278	2,193	270
CASH AND BANK BALANCES AT BEGINNING OF YEAR		12,583	11,305	11,475	11,205
CASH AND BANK BALANCES AT END OF YEAR		15,068	12,583	13,668	11,475

The accompanying Notes form an integral part of the Financial Statements.

Notes to the Financial Statements

1. GENERAL INFORMATION

Heineken Malaysia Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The Company is principally engaged in the production, packaging, marketing and distribution of beverages, primarily alcoholic, whilst the principal activities of the subsidiaries are as stated in Note 13.

The registered office and principal place of business of the Company is located at Sungei Way Brewery, Lot 1135, Batu 9, Jalan Klang Lama, 46000 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 21 February 2020.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

Application of New and Revised Malaysian Financial Reporting Standards Amendments to MFRS and Issue Committee Interpretations ("IC Int.")

In the current financial year, the Group and the Company adopted all the new and revised MFRSs and amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") and effective for an annual financial period beginning on or after 1 January 2019:

MFRS 16	Leases
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 119	Plan Amendments, Curtailment or Settlement
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
Amendments to MFRSs	Annual Improvements to MFRSs 2015 - 2017 Cycle
IC Int. 23	Uncertainty over Income Tax Treatments

The adoption of these new and revised MFRSs, Amendments to MFRS and IC Interpretation did not result in significant changes in the accounting policies of the Group and of the Company and had no significant effect on the financial performance or position of the Group and of the Company except for the adoption of MFRS 16 as discussed below:

Impacts of Application of MFRS 16 Leases

In the current year, the Group and the Company have applied MFRS 16 that is effective for annual periods that begin on or after 1 January 2019.

MFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of MFRS 16 on the financial statements is described below.

The directors of the Group and of the Company have applied the modified retrospective method and the Group and the Company did not reinstate comparative information. Right-of-use assets are measured at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy as disclosed in Note 3.

Notes to the Financial Statements

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Impacts of Application of MFRS 16 Leases (Continued)

The Group and the Company have applied the practical expedients under MFRS 16 by applying the short term (one year or less) and low value (less than RM25,000) exemptions.

Upon adoption of MFRS 16, leasehold land amounting to RM11,426,000 have been reclassified to right-of-use assets together with a recognition of additional right-of-use assets and lease liabilities amounting to RM10,635,000 and RM4,408,000 on 1 January 2019 for the Group and the Company, respectively. The Group and the Company discounted the lease payments using the incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied is 5.72%.

The difference between the opening balance sheet impact as at 1 January 2019 and the off-balance sheet commitments is primarily due to discounting of future lease payments and short-term lease commitments which are not included in the lease liability.

Refer to the table below for the reconciliation:

	Group RM'000	Company RM'000
Operating lease commitment disclosed as at 31 December 2018	11,677	4,815
Short-term leases not recognised as lease liabilities	(665)	(60)
Impact of discounting using the incremental borrowing rate as at 1 January 2019	(377)	(347)
Lease liabilities recognised as at 1 January 2019	10,635	4,408

Standards and Amendments in issue but not yet effective

At the date of authorisation for issue of these financial statements, the new and revised Standards, Amendments and Interpretations ("IC Int.") which were in issue but not yet effective and not early adopted by the Group and the Company are as listed below:

Effective for annual periods beginning on or after 1 January 2020

MFRSs	Amendments to References to the Conceptual Framework in MFRS Standards
Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 101 and MFRS 108	Definition of a Material
Amendments to MFRS 9, MFRS 139 and MFRS 7	Interest Rate Benchmark Reform

Effective for annual periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts
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Effective date deferred to a date to be announced by MASB

Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
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Notes to the Financial Statements

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Standards and Amendments in issue but not yet effective (Continued)

The directors anticipate that the abovementioned Standards, IC Int. and Amendments will be adopted in the annual financial statements of the Group and of the Company when they become effective and that the adoption of these Standards, IC Int. and Amendments will have no material impact on the financial statements of the Company in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and the Company take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of MFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of Consolidation and Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation and Subsidiaries (Continued)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable MFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation and Subsidiaries (Continued)

Subsidiaries

Investment in subsidiaries, which are eliminated on consolidation, are stated at cost less any accumulated impairment losses, if any, in the Company's financial statements.

Translation of Foreign Currency Transactions

Transactions denominated in foreign currencies are translated and recorded at the rates of exchange prevailing at the respective dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the period (i.e. the closing rates). Non-monetary items carried at fair values that are denominated in foreign currencies are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items that are measured at their historical cost amounts continue to be translated at their respective historical rates and are not retranslated.

All exchange differences arising on settled transactions and on unsettled monetary items are recognised in profit or loss in the period in which they arise.

Functional and Presentation Currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to nearest thousand, unless otherwise stated.

Revenue Recognition

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation is a promise to transfer a distinct goods or services (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's and the Company's customary business practices.

(i) Sales of Goods

Revenue is generated by the sale and delivery of products to customers. Revenue is measured based on the consideration specified in a contract with a customer. The products are mostly own-produced finished goods from the Group's brewing activities, but also contain purchased goods from related companies for resale to customers. The Group and the Company recognise revenue when they transfer control over a product or service to a customer and satisfy their performance obligation to a customer. Where applicable, rebates and discounts to customers are accounted as net of revenue according to contract. The revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(ii) Dividend Income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's rights to receive payment is established.

(iii) Interest Income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefits

(i) Short-Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which employees of the Group and of the Company render the associated services. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

The Group and the Company and their eligible employees are required by law to make monthly contributions to Employees Provident Fund ("EPF"), a statutory defined contribution plan, at certain prescribed rates based on the employees' salaries. The Group's and the Company's contributions to EPF are disclosed separately while the employees' contributions to EPF are included in staff costs. Once these contributions have been paid, the Group and the Company have no further payment obligations.

(iii) Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised in the cost of those assets until the assets are substantially ready for their intended use or sale. Borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is provided for, using the "liability" method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction that affects neither the accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax (Continued)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting date. Deferred tax is recognised in profit or loss except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority the Group and the Company intend to settle its current tax assets and liabilities on a net basis.

Leases

Accounting policies applied from 1 January 2019

The Group and the Company recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment as disclosed in Note 2. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group and the Company expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The lease term is determined as the non-cancellable period of a lease, together with both:

- (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Group and the Company apply MFRS 136 to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in "Property, Plant and Equipment" policy.

The lease liability is initially measured at the present value of future lease payments at the commencement date, discounted using the Group's and the Company's incremental borrowing rates. Lease payments included in the measurement of the lease liability include fixed payments, any variable lease payments, amount expected to be payable under a residual value guarantee, and exercise price under an extension option that the Group and the Company are reasonably certain to exercise.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, or if the Group or the Company changes its assessment of whether it will exercise an extension or termination option.

Lease payments associated with short term leases and leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low value assets are those assets valued at less than RM25,000 each when purchased new.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Accounting policies applied until 31 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Impairment of Non-Financial Assets

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in profit or loss.

Recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Group and the Company and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss in the year in which they are incurred.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Returnable bottles and kegs in circulation are recorded within property, plant and equipment and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use.

The following annual rates based on the estimated useful lives of the various assets:

Long term leasehold land	61 - 95 years
Buildings	50 years
Plant and machinery	13 - 20 years
Movable plant	2 - 10 years

Where significant parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

At each reporting date, the residual values, useful lives and depreciation method of property, plant and equipment are reviewed, and the effects of any change in estimates are recognised prospectively.

Freehold land is not depreciated. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Computer software that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and any accumulated impairment losses. Capital work-in-progress is measured at cost and is not amortised until the assets are ready for their intended use.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Computer software are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 5 years. Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Inventories

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories is calculated using weighted average method, and includes cost of raw materials, duties where applicable, and other expenses incurred in acquiring inventories and bringing them to their existing location and condition. For finished goods and work-in-progress, cost also includes direct labour and an appropriate proportion of production overheads based on normal operating capacity.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated cost necessary to make the sale.

Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets (Continued)

Amortisation cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets (Continued)

Impairment of financial assets (Continued)

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assets (Continued)

Impairment of financial assets (Continued)

(iv) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with MFRS 16 *Leases*.

If the Group measures the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Liabilities and Equity Instruments (Continued)

Derecognition of financial liabilities (Continued)

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

At each reporting date, the provisions are reviewed by the directors and adjusted to reflect the current best estimate. The provisions are reversed if it is no longer probable that the Group and the Company will be required to settle the obligation.

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

Statements of Cash Flows

The Group and the Company adopt the indirect method in the preparation of the statements of cash flows.

Notes to the Financial Statements

4. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTY

(i) Critical judgements in applying the Group's and the Company's accounting policies

In the process of applying the Group's and the Company's accounting policies, which are described in Note 3 above, management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

(ii) Key sources of estimation uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group and the Company within the next financial year except as discussed below:

Accruals for promotional discounts and volume rebates

Significant management judgment is required relative to the consideration of the Group's ability to estimate the promotional allowance and volume rebates, which impact revenue recognition. In making the estimates, the Group refers to the terms agreed with the customers and relies on the historical and current sales information to determine the accruals for promotional discounts and rebates as at the end of the reporting period.

Contingent liabilities

Contingent liabilities are recognised when a possible obligation is pending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably. Significant management estimate is required to determine the likelihood of the obligations to be realised.

Depreciation of property, plant and equipment and right-of-use assets

The Group and the Company estimate the useful lives of property, plant and equipment and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimate due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Returnable packaging deposits

The Group collects deposits from customers on returnable packaging materials such as bottles, kegs, crates and cylinders. Management estimates the returnable packaging materials being circulated in the market and the expected return from customers. The estimate is based on circulation time and losses of returnable packaging materials in the market.

Right-of-use assets and lease liabilities

Significant management judgement is required to determine the lease term and the incremental borrowing rate. Management assesses whether the Group and the Company are reasonably certain to exercise such options impacts the lease term, which as a result could affect the amount of lease liabilities recognised. The assumptions used in the determination of the incremental borrowing rate could impact the rate used in discounting future payments, which as a result could have an impact on the amount of lease liabilities recognised.

Notes to the Financial Statements

5. FINANCE INCOME

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest income received from deposits placed with licensed banks	1,369	1,238	1,305	1,228
Interest income received from staff loans	3	11	3	3
Recognised in profit or loss	1,372	1,249	1,308	1,231

6. FINANCE COSTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:				
Revolving credit and trade financing	3,101	3,619	3,101	3,619
Lease liabilities	543	-	209	-
Recognised in profit or loss	3,644	3,619	3,310	3,619

Notes to the Financial Statements

7. PROFIT BEFORE TAX

Profit before tax is arrived at after the following:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
After charging:				
Personnel expenses (including key management personnel):				
Wages, salaries and others	95,248	94,681	32,806	30,297
Contributions to state plans	14,159	13,315	4,378	3,992
Amortisation of prepaid contractual promotion expenses	46,442	52,334	-	-
Depreciation of property, plant and equipment (Note 10)	43,709	39,262	36,543	32,082
Amortisation of intangible assets (Note 11)	7,436	6,395	7,436	6,393
Property, plant and equipment written off	6,873	4,496	6,873	4,170
Depreciation of right-of-use assets (Note 12)	5,539	-	2,391	-
Inventories written down	2,696	4,617	480	1,171
Rental expense on buildings	1,859	3,225	381	254
Hire of equipment	599	1,449	279	1,136
Auditors' remuneration:				
Statutory audit	198	198	120	120
Other services	40	40	40	40
Intangible assets written off	-	1	-	1
Loss on disposal of property, plant and equipment	-	-	-	92
And after crediting:				
Dividend income from unquoted subsidiary	-	-	413,076	239,299
Gain on disposal of property, plant and equipment	476	1,117	4	-
Net realised gain on foreign exchange	2,316	326	2,066	150
Net unrealised gain on foreign exchange	110	433	128	393

Notes to the Financial Statements

8. INCOME TAX EXPENSE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Estimated tax payable:				
Current year	94,363	94,343	2,564	11,455
Overprovision in prior years	(1,187)	(567)	(1,982)	(1,122)
	93,176	93,776	582	10,333
Deferred tax (Note 14):				
Current year	7,567	2,662	6,117	2,196
(Over)/Underprovision in prior years	(1,584)	1,806	(2,349)	1,933
	5,983	4,468	3,768	4,129
	99,159	98,244	4,350	14,462

A reconciliation of income tax expense applicable to profit before tax at the applicable statutory income tax rate to the income tax expense at the effective income tax rates of the Group and of the Company is as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax	412,127	380,764	439,559	275,717
Tax at statutory tax rate of 24% (2018: 24%)	98,910	91,383	105,494	66,172
Tax effects of:				
Expenses not deductible for tax purposes	3,020	5,622	2,325	4,911
(Over)/Underprovision in prior years:				
Current tax	(1,187)	(567)	(1,982)	(1,122)
Deferred tax	(1,584)	1,806	(2,349)	1,933
Tax exempt dividend	-	-	(99,138)	(57,432)
	99,159	98,244	4,350	14,462

Notes to the Financial Statements

9. EARNINGS PER ORDINARY STOCK UNIT

Basic earnings per ordinary stock unit

The calculation of basic earnings per ordinary stock unit at 31 December 2019 was based on the profit attributable to the holders of ordinary stock units of RM312,968,000 (2018: RM282,520,000) and the number of ordinary stock units outstanding of 302,098,000 (2018: 302,098,000).

	Group	
	2019	2018
Issued ordinary stock unit ('000)	302,098	302,098
Basic earnings per ordinary stock unit (sen)	103.6	93.5

There were no diluted earnings per ordinary stock unit for the Group as at 31 December 2019.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land	Long term leasehold land	Buildings	Plant and machinery	Movable plant	Capital work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost							
At 1 January 2018	4,037	20,191	79,953	358,213	195,306	29,841	687,541
Additions	-	-	276	180	19,076	75,538	95,070
Write offs	-	-	(1,043)	(913)	(9,750)	-	(11,706)
Disposals	-	-	-	(250)	(4,096)	-	(4,346)
Reclassifications	-	-	7,215	15,649	23,699	(46,563)	-
At 31 December 2018/ 1 January 2019	4,037	20,191	86,401	372,879	224,235	58,816	766,559
Additions	-	-	56	3,956	29,678	76,687	110,377
Write offs	-	-	-	(1,097)	(13,189)	-	(14,286)
Disposals	-	-	-	(225)	(1,524)	-	(1,749)
Reclassifications	-	-	12,976	56,006	48,891	(117,873)	-
Effect of adoption of MFRS 16	-	(20,191)	-	-	-	-	(20,191)
At 31 December 2019	4,037	-	99,433	431,519	288,091	17,630	840,710

Notes to the Financial Statements

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Movable plant RM'000	Capital work-in- progress RM'000	Total RM'000
Accumulated Depreciation							
At 1 January 2018	-	8,509	46,418	263,697	127,080	-	445,704
Charge for the year	-	256	4,625	11,150	23,231	-	39,262
Write offs	-	-	(1,014)	(899)	(5,297)	-	(7,210)
Disposals	-	-	-	(94)	(4,043)	-	(4,137)
At 31 December 2018/ 1 January 2019	-	8,765	50,029	273,854	140,971	-	473,619
Charge for the year	-	-	4,451	12,649	26,609	-	43,709
Write offs	-	-	-	(1,080)	(6,333)	-	(7,413)
Disposals	-	-	-	(225)	(1,517)	-	(1,742)
Effect of adoption of MFRS 16	-	(8,765)	-	-	-	-	(8,765)
At 31 December 2019	-	-	54,480	285,198	159,730	-	499,408
Carrying amounts							
At 31 December 2019	4,037	-	44,953	146,321	128,361	17,630	341,302
At 31 December 2018	4,037	11,426	36,372	99,025	83,264	58,816	292,940

Notes to the Financial Statements

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Long term leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Movable plant RM'000	Capital work-in- progress RM'000	Total RM'000
Cost						
At 1 January 2018	20,191	73,244	358,213	151,011	26,820	629,479
Additions	-	260	180	18,946	66,699	86,085
Write offs	-	(214)	(913)	(8,150)	-	(9,277)
Disposals	-	-	(250)	(115)	-	(365)
Reclassifications	-	7,064	15,649	14,239	(36,952)	-
At 31 December 2018/1 January 2019	20,191	80,354	372,879	175,931	56,567	705,922
Additions	-	56	3,956	29,616	60,868	94,496
Write offs	-	-	(1,097)	(13,188)	-	(14,285)
Disposals	-	-	(225)	-	-	(225)
Reclassifications	-	12,976	56,006	31,411	(100,393)	-
Effect of adoption of MFRS 16	(20,191)	-	-	-	-	(20,191)
At 31 December 2019	-	93,386	431,519	223,770	17,042	765,717
Accumulated Depreciation						
At 1 January 2018	8,509	41,314	263,697	95,629	-	409,149
Charge for the year	256	3,812	11,150	16,864	-	32,082
Write offs	-	(197)	(899)	(4,011)	-	(5,107)
Disposals	-	-	(94)	(111)	-	(205)
At 31 December 2018/1 January 2019	8,765	44,929	273,854	108,371	-	435,919
Charge for the year	-	3,983	12,649	19,911	-	36,543
Write offs	-	-	(1,080)	(6,332)	-	(7,412)
Disposals	-	-	(225)	-	-	(225)
Effect of adoption of MFRS 16	(8,765)	-	-	-	-	(8,765)
At 31 December 2019	-	48,912	285,198	121,950	-	456,060
Carrying amounts						
At 31 December 2019	-	44,474	146,321	101,820	17,042	309,657
At 31 December 2018	11,426	35,425	99,025	67,560	56,567	270,003

Notes to the Financial Statements

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the financial year, the Group and the Company acquired property, plant and equipment as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash payments	101,846	77,394	85,965	68,409
Other payables	8,531	17,676	8,531	17,676
Total additions	110,377	95,070	94,496	86,085

11. INTANGIBLE ASSETS

Group	Computer software RM'000	Capital work-in- progress RM'000	Total RM'000
Cost			
At 1 January 2018	80,253	456	80,709
Additions	15	4,437	4,452
Write offs	(957)	-	(957)
Reclassifications	1,851	(1,851)	-
At 31 December 2018/1 January 2019	81,162	3,042	84,204
Additions	53	6,682	6,735
Reclassifications	5,657	(5,657)	-
At 31 December 2019	86,872	4,067	90,939
Amortisation			
At 1 January 2018	57,471	-	57,471
Amortisation for the year	6,395	-	6,395
Write offs	(956)	-	(956)
At 31 December 2018/1 January 2019	62,910	-	62,910
Amortisation for the year	7,436	-	7,436
At 31 December 2019	70,346	-	70,346
Carrying Amounts			
At 31 December 2019	16,526	4,067	20,593
At 31 December 2018	18,252	3,042	21,294

Notes to the Financial Statements

11. INTANGIBLE ASSETS (CONTINUED)

Company	Computer software RM'000	Capital work-in-progress RM'000	Total RM'000
Cost			
At 1 January 2018	80,236	456	80,692
Additions	15	4,437	4,452
Write offs	(957)	-	(957)
Reclassifications	1,851	(1,851)	-
At 31 December 2018/1 January 2019	81,145	3,042	84,187
Additions	53	6,683	6,736
Reclassifications	5,657	(5,657)	-
At 31 December 2019	86,855	4,068	90,923
Amortisation			
At 1 January 2018	57,457	-	57,457
Amortisation for the year	6,393	-	6,393
Write offs	(956)	-	(956)
At 31 December 2018/1 January 2019	62,894	-	62,894
Amortisation for the year	7,436	-	7,436
At 31 December 2019	70,330	-	70,330
Carrying amounts			
At 31 December 2019	16,525	4,068	20,593
At 31 December 2018	18,251	3,042	21,293

Notes to the Financial Statements

12. RIGHT-OF-USE ASSETS

Group	Long term leasehold land RM'000	Building RM'000	Motor vehicle RM'000	Total RM'000
Cost				
At 1 January 2019	-	-	-	-
Effect of adoption of MFRS 16	11,426	3,059	7,576	22,061
Additions	-	1,755	222	1,977
At 31 December 2019	11,426	4,814	7,798	24,038
Accumulated Depreciation				
At 1 January 2019	-	-	-	-
Depreciation for the year	(255)	(1,725)	(3,559)	(5,539)
At 31 December 2019	(255)	(1,725)	(3,559)	(5,539)
Carrying Amounts				
At 31 December 2019	11,171	3,089	4,239	18,499
Company	Long term leasehold land RM'000	Building RM'000	Motor vehicle RM'000	Total RM'000
Cost				
At 1 January 2019	-	-	-	-
Effect of adoption of MFRS 16	11,426	1,265	3,143	15,834
Additions	-	323	106	429
At 31 December 2019	11,426	1,588	3,249	16,263
Accumulated Depreciation				
At 1 January 2019	-	-	-	-
Depreciation for the year	(255)	(608)	(1,528)	(2,391)
At 31 December 2019	(255)	(608)	(1,528)	(2,391)
Carrying Amounts				
At 31 December 2019	11,171	980	1,721	13,872

Notes to the Financial Statements

13. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost	14,344	14,344

Details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Proportion of ownership interest and voting power		Principal activities
		2019 %	2018 %	
Heineken Marketing Malaysia Sdn. Bhd.	Malaysia	100	100	Marketing and distribution of beverages primarily alcoholic in Malaysia
Ramaha Corporation (M) Sdn. Bhd.	Malaysia	100	100	Property holding and land development
Heineken East Malaysia Sdn. Bhd.	Malaysia	100	100	Dormant

14. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets				
Property, plant and equipment	-	637	-	-
Lease liabilities	2,632	-	1,138	-
Other items	235	764	235	130
Tax assets	2,867	1,401	1,373	130
Set off of tax	(2,867)	(135)	(1,373)	(130)
	-	1,266	-	-

Notes to the Financial Statements

14. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Liabilities				
Property, plant and equipment	(38,439)	(33,734)	(37,637)	(33,734)
Right-of-use assets	(2,749)	-	(1,108)	-
Other items	-	(5)	-	-
Tax liabilities	(41,188)	(33,739)	(38,745)	(33,734)
Set off of tax	2,867	135	1,373	130
	(38,321)	(33,604)	(37,372)	(33,604)
Net				
Property, plant and equipment	(38,439)	(33,097)	(37,637)	(33,734)
Right-of-use assets and lease liabilities	(117)	-	30	-
Other items	235	759	235	130
Tax liabilities	(38,321)	(32,338)	(37,372)	(33,604)

Movement in temporary differences during the year:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At beginning of year	(32,338)	(27,870)	(33,604)	(29,475)
Recognised in profit or loss (Note 8):				
Property, plant and equipment	(5,342)	(4,456)	(3,903)	(3,954)
Right-of-use assets and lease liabilities	(117)	-	30	-
Other items	(524)	(12)	105	(175)
	(5,983)	(4,468)	(3,768)	(4,129)
At end of year	(38,321)	(32,338)	(37,372)	(33,604)

Notes to the Financial Statements

15. RECEIVABLES, DEPOSITS AND PREPAID EXPENSES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-current				
Other receivables	556	1,167	263	655
Prepaid expenses	15,580	19,457	-	-
	16,136	20,624	263	655
Current				
Trade				
Trade receivables	554,291	460,929	-	1,729
Less: Impairment losses	(1,532)	(1,532)	-	-
Amount due from a subsidiary	-	-	148,776	69,704
	552,759	459,397	148,776	71,433
Non-trade				
Amount due from intermediate holding corporation	155	309	107	209
Amount due from related parties	1,128	687	294	589
Amount due from a subsidiary	-	-	4,043	4,043
Deposits	4,566	4,976	2,823	2,695
Other receivables	9,273	7,517	6,345	7,022
Prepaid expenses	31,965	19,100	3	142
	47,087	32,589	13,615	14,700
	599,846	491,986	162,391	86,133

(a) Amounts due from related parties, intermediate holding corporation and subsidiaries

The trade amounts due from a subsidiary are subject to normal trade terms.

The non-trade amounts due from intermediate holding corporation, related parties and a subsidiary are unsecured, interest-free and repayable on demand.

(b) Other receivables

Included in other receivables are staff loans of the Group and of the Company amounting to RM1,056,000 (2018: RM1,796,000) and RM529,000 (2018: RM1,058,000) respectively of which RM556,000 (2018: RM1,167,000) and RM263,000 (2018: RM655,000) are repayable after the next 12 months for the Group and the Company respectively.

(c) Prepaid expenses

Included in prepaid expenses of the Group are prepaid contractual promotion expenses for promotional activities of RM46,917,474 (2018: RM37,746,000) of which RM15,580,259 (2018: RM19,457,000) are to be amortised over a period of more than 12 months but not exceeding 36 months. The upfront payments are made to the on-trade retailers to carry out promotional activities over the period specified in the contract. The amount is amortised to profit or loss based on actual volume sold by the on-trade retailers as stipulated in the contract.

Notes to the Financial Statements

16. INVENTORIES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Raw materials	15,626	11,711	15,626	11,711
Work-in-progress	6,710	4,818	6,710	4,818
Finished goods	36,441	61,035	4,476	3,142
Packaging materials	7,235	5,624	7,235	5,624
Engineering stores and spaces	7,833	6,849	6,662	5,787
	73,845	90,037	40,709	31,082
Recognised in profit or loss:				
Inventories recognised as cost of sales	1,355,143	1,230,705	1,356,298	1,264,882

The Group and the Company have written down inventories by RM2,696,000 (2018: RM4,617,000) and RM480,000 (2018: RM1,171,000) respectively to net realisable value.

17. SHARE CAPITAL

	Group and Company			
	Number of shares		Amount	
	2019 (‘000)	2018 (‘000)	2019 RM'000	2018 RM'000
Issued and fully paid				
Ordinary stock units	302,098	302,098	151,049	151,049

The holders of ordinary stock units are entitled to receive dividends as declared from time to time, and are entitled to one vote per ordinary stock unit at meetings of the Company.

18. BORROWINGS

	Group and Company	
	2019 RM'000	2018 RM'000
Current		
Trade financing (unsecured)	98,000	105,000

Notes to the Financial Statements

18. BORROWINGS (CONTINUED)

Trade financing as at 31 December 2019 consist of the following:

	Tenure (weeks)	Interest rate (per annum)	Maturity date	Nominal value (RM'000)
Trade financing (unsecured)	2 - 4	3.38%	17 January 2020	98,000

Trade financing as at 31 December 2018 consist of the following:

	Tenure (weeks)	Interest rate (per annum)	Maturity date	Nominal value (RM'000)
Trade financing (unsecured)	3 - 4	3.73%	18 January 2019	105,000

The principal and interest are repayable in full upon maturity.

19. LEASE LIABILITIES

	Group 2019 RM'000	Company 2019 RM'000
Non-current	3,201	1,095
Current	4,303	1,677
	7,504	2,772
Minimum lease payments:		
Not later than 1 year	4,599	1,782
Later than 1 year but not later than 5 years	3,314	1,127
	7,913	2,909
Less: Unexpired finance charges	(409)	(137)
	7,504	2,772
Present value of lease liabilities:		
Not later than 1 year	4,303	1,677
Later than 1 year but not later than 5 years	3,201	1,095
	7,504	2,772

The Group and the Company discounted the lease liabilities by using the Group's and the Company's incremental borrowing rates of 5.72%.

During the year, the Group and the Company recognised RM2,458,130 and RM659,492 respectively of short-term leases and leases of low value assets on a straight-line basis as expenses.

Notes to the Financial Statements

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade				
Amount due to intermediate holding corporation	8,810	8,958	47	166
Amount due to related parties	7,707	8,495	4,837	8,434
Trade payables	144,975	117,060	77,144	70,111
	161,492	134,513	82,028	78,711
Non-trade				
Amount due to intermediate holding corporation	16	-	-	-
Amount due to related parties	4,671	5,087	4,655	2,180
Amount due to a subsidiary	-	-	100	100
Returnable packaging deposits	24,599	22,781	-	-
Other payables	44,485	47,062	39,779	45,923
Derivative financial liabilities	5	55	-	55
Accrued expenses	296,102	204,720	20,546	19,251
	369,878	279,705	65,080	67,509
	531,370	414,218	147,108	146,220

(a) Amount due to related parties, intermediate holding corporation and a subsidiary

The trade amount due to related parties and intermediate holding corporation are subject to normal trade terms.

The non-trade amounts due to related parties, intermediate holding corporation and a subsidiary are unsecured, interest-free and repayable on demand.

(b) Accrued expenses

Included in accrued expenses of the Group are accruals for promotion expenses of RM251,831,000 (2018: RM148,187,000).

Notes to the Financial Statements

21. DIVIDENDS

Dividends recognised by the Group and the Company are:

	Sen per stock unit	Total amount RM'000	Date of payment
31 December 2019			
Interim 2019 ordinary	42.0	126,881	25 October 2019
Final 2018 ordinary	54.0	163,133	19 July 2019
Total amount		<u>290,014</u>	
31 December 2018			
Interim 2018 ordinary	40.0	120,839	25 October 2018
Final 2017 ordinary	50.0	151,049	6 June 2018
Total amount		<u>271,888</u>	

The directors now recommend the declaration of a final ordinary dividend of 66 sen per stock unit under the single tier tax system totalling RM199,384,680 in respect of the financial year ended 31 December 2019 which, if approved by the owners of the Company will be payable on 17 July 2020.

22. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Group and of the Company include the directors of the Company and subsidiaries and certain members of senior management of the Group and the Company. Their compensation are as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Directors:				
Fees	606	602	600	596
Remuneration	2,267	2,189	2,267	2,189
Meeting attendance allowance	57	57	57	57
Other short term benefits [including estimated monetary value of benefits-in- kind of RM62,510 (2018: RM53,416)]	379	485	379	485
	<u>3,309</u>	<u>3,333</u>	<u>3,303</u>	<u>3,327</u>
Other key management personnel:				
Short term employee benefits	6,465	5,761	3,796	4,005
	<u>9,774</u>	<u>9,094</u>	<u>7,099</u>	<u>7,332</u>

Other key management personnel comprise persons other than the directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

Notes to the Financial Statements

23. OPERATING SEGMENTS

The Group's business is focussed only in malt liquor brewing including production, packaging, marketing and distribution of its products, principally in Malaysia. Approximately 1% (2018: 1%) of the total sales is exported, mainly to Asian countries. As such, only one reportable segment analysis is prepared. The Managing Director of the Company (the chief operating decision maker) reviews internal management reports at least on a monthly basis.

Performance is measured based on segment profit, as included in the internal management reports that are reviewed by the Managing Director of the Company. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within this industry.

Segment assets and liabilities

Segment assets and liabilities information is neither included in the internal management reports nor provided regularly to the Managing Director of the Company. Hence, no disclosure is made on segment assets and liabilities.

Segment capital expenditure

Segment capital expenditure is the total costs incurred during the financial year to acquire property, plant and equipment, right-of-use assets and intangible assets.

	Group	
	2019	2018
	RM'000	RM'000
Total additions to property, plant and equipment, right-of-use assets and intangible assets	119,089	99,522
Segment profit		
<i>Included in the measure of segment profits are:</i>		
Revenue from external customers	2,320,249	2,029,672
Depreciation and amortisation	(56,684)	(45,657)
<i>Not included in the measure of segment profit but provided to the Managing Director of the Company:</i>		
Net finance costs	(2,272)	(2,370)

Reconciliation of reportable segment revenue, profit and other material items.

	Group	
	2019	2018
	RM'000	RM'000
Net finance costs		
Finance income	1,372	1,249
Finance costs	(3,644)	(3,619)
Consolidated net finance costs	(2,272)	(2,370)

No reconciliation is performed for reportable segment profit, revenue, depreciation and amortisation to consolidated figures as there are no differences.

Notes to the Financial Statements

24. CAPITAL COMMITMENTS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Capital expenditure commitments				
Property, plant and equipment:				
Authorised and contracted for within one year	11,673	23,804	7,276	23,804

25. CONTINGENT LIABILITY - UNSECURED

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 ("RMC") demanding payment on additional excise duty and sales tax totalling RM56,325,555. The amounts in demand are:

- Excise duty amounting to RM34,166,099 claimed under the Excise Duty Act 1976, for the period of 28 August 2012 to 31 October 2013.
- Sales tax amounting to RM14,772,971 and penalty amounting to RM7,386,485 claimed under the Sales Tax Act 1972, for the period of 1 July 2012 to 31 October 2013.

On 17 February 2020, the Company received an official letter from the RMC notifying the cancellation of sales tax amounting to RM14,772,971 and penalty amounting to RM7,386,485 with effect from 15 January 2020 whereas the excise duty amounting to RM34,166,099 remains unchanged.

The Company does not admit liability on the bill of demand for excise duty made by the RMC and has taken appropriate measures to address this matter. Based on the legal opinion sought, there are reasonable grounds to appeal for the revocation of the bill of demand. The Company will continue to engage the RMC to seek an amicable solution to resolve this matter soonest possible. Hence, the directors are of the opinion that provision is not required at this stage, as it is not probable that a future sacrifice of economic benefits will be required.

26. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the directors of the Group, and certain members of senior management of the Group.

The Group has related party relationships with its holding corporations, related corporations, subsidiaries and key management personnel.

The directors regard GAPL Pte. Ltd. ("GAPL") and Heineken Asia Pacific Pte. Ltd. ("HAPPL"), both corporations incorporated in the Republic of Singapore, as the immediate and intermediate holding corporations.

HAPPL is owned by Heineken N.V., a corporation incorporated in the Netherlands, which in turn is the ultimate holding corporation of the Company.

Notes to the Financial Statements

26. RELATED PARTIES (CONTINUED)

Significant related party transactions

Significant related party transactions of the Group and the Company other than those disclosed elsewhere in the financial statements are shown below. The balances related to the below transactions are shown in Notes 15 and 20.

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Intermediate holding corporation				
<i>Heineken Asia Pacific Pte. Ltd.</i>				
Royalties paid and payable	(30,564)	(27,812)	-	-
Purchase of goods	(40)	-	(24)	-
Marketing and advertising service fees received and receivable	-	5,500	-	-
Subsidiary				
<i>Heineken Marketing Malaysia Sdn. Bhd.</i>				
Dividend income	-	-	413,076	239,299
Sale of products	-	-	1,422,243	1,332,176
Management service fee received and receivable	-	-	33,060	33,563
Related corporations				
<i>Related corporations of Heineken N.V.</i>				
Sales of goods	433	-	433	-
Purchase of goods	(10,624)	(11,607)	(10,356)	(11,275)
Royalties paid and payable	(9,424)	(9,331)	-	-
Marketing and technical fees paid and payable	(22,663)	(16,246)	(20,546)	(14,379)

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as results from operating activities divided by total equity attributable to owners of the Company. The Board of Directors also monitors the level of dividends to owners of the Company.

The Group monitors and maintains a balanced level of total equity to ensure the Group has adequate capital to support its future development and the payment of dividends to owners of the Company. There was no change in the Group's approach to capital management during the financial year.

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

Under the requirements of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than 25 percent of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

27.1 Significant Accounting Policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

27.2 Categories of Financial Instruments

Group	2019 RM'000	2018 RM'000
Financial assets		
At amortised cost:		
Receivables and deposits	568,437	474,053
Cash and bank balances	15,068	12,583
Financial liabilities		
At amortised cost:		
Trade and other payables	531,370	414,218
Borrowings	98,000	105,000
Lease liabilities	7,504	-
Company	2019 RM'000	2018 RM'000
Financial assets		
At amortised cost:		
Receivables and deposits	162,651	86,646
Cash and bank balances	13,668	11,475
Financial liabilities		
At amortised cost:		
Trade and other payables	147,108	146,220
Borrowings	98,000	105,000
Lease liabilities	2,772	-

27.3 Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.4 Credit Risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its trade receivables. The Company's exposure to credit risk arises principally from trade amount subsidiaries and advances to subsidiaries.

(a) Receivables

Risk management objectives, policies and processes for managing the risk

Management has credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral to be pledged by most of its customers to cover a percentage of the credit limit granted to them.

New customers are subject to the credit evaluation process and existing customers' risk profiles are reviewed regularly with a view to setting appropriate terms of trade and credit limits. Where appropriate, further transactions are suspended and legal actions are taken to attempt recoveries and mitigate losses. Financial guarantees from certain customers may be obtained.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk from receivables is represented by the carrying amounts in the statement of financial position.

The Group has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. Due to the nature of the industry, a significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor credit quality of the receivables. Any receivables having significant balances past due, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was:

	Group	
	2019	2018
	RM'000	RM'000
Malaysia	552,759	457,668
Others	-	1,729
	552,759	459,397

The carrying amounts of collateral for trade receivables as at the end of reporting period were:

	Group	
	Carrying amounts	
	2019	2018
	RM'000	RM'000
Type of collateral		
Bank guarantees	60,550	58,125
Properties charged	38,267	39,137
Quoted shares pledged	1,554	1,554
	100,371	98,816

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.4 Credit Risk (Continued)

(a) Receivables (Continued)

Impairment losses

The Group applies the MFRS 9 simplified approach to measuring expected credit losses (“ECL”) which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 60 days.

The Group uses an allowance matrix to measure ECLs of trade receivables for all segments. Consistent with the debt recovery process, invoices which are past due more than 180 days will be considered as credit impaired.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at the end of the reporting period which are grouped together as they are expected to have similar risk nature:

	Trade receivables - days past due				Total RM'000
	Not past due RM'000	1 - 30 days RM'000	31 - 180 days RM'000	More than 180 days RM'000	
2019					
Group					
Expected credit loss rate	0%	0%	0%	100%	
Estimated total gross carrying amount at default	547,855	4,860	44	1,532	554,291
Lifetime ECL	-	-	-	(1,532)	(1,532)
					<u>552,759</u>
2018					
Group					
Expected credit loss rate	0%	0%	0%	100%	
Estimated total gross carrying amount at default	458,145	1,077	175	1,532	460,929
Lifetime ECL	-	-	-	(1,532)	(1,532)
					<u>459,397</u>

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.4 Credit Risk (Continued)

(a) Receivables (Continued)

The movements in the allowance for impairment losses of receivables during the financial year were:

	2019 RM'000	Group 2018 RM'000
At beginning of year	1,532	1,565
Impairment loss reversed	-	(33)
At end of year	1,532	1,532

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

(b) Amount due from subsidiary, intermediate holding corporation and related parties

Risk management objectives, policies and processes for managing the risk

The Group and the Company undertake trade and non-trade transactions with the intermediate holding corporation and related parties. The Company also provides unsecured advances to subsidiaries. The Group and the Company monitor their results regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Advances are only provided to subsidiaries which are wholly owned by the Company.

Impairment losses

As at the end of the reporting period, there was no indication that the intercompany balances are not recoverable.

27.5 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's financial position or cash flows.

(a) Foreign currency risk

The Group is exposed to foreign currency risk through normal trading activities on sales and purchases that are denominated in currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar ("USD"), Singapore Dollar ("SGD"), Euro Dollar ("EURO") and Great Britain Pound ("GBP").

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.5 Market Risk (Continued)

(a) Foreign currency risk (Continued)

Risk management objectives, policies and processes for managing the risk

The Group uses forward exchange contracts to hedge its foreign currency risk. There is no outstanding forward exchange contract as at the end of reporting period.

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the respective functional currencies of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

Group	Denominated in			
	USD RM'000	SGD RM'000	EURO RM'000	GBP RM'000
2019				
Trade payables	(4,287)	(10,083)	(29,904)	(2,203)
2018				
Trade receivables	406	-	-	-
Trade payables	(845)	(4,983)	(12,159)	(38)
Net exposure	(439)	(4,983)	(12,159)	(38)

A foreign currency risk arising from Group's operations is not material, sensitivity analysis is not presented.

(b) Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair values due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group does not have a formal policy in place for managing the risk arising from interest rate. The fluctuation of interest rate is however monitored closely by the Group.

Exposure to interest rate risk

The interest rate profile of the Group's and of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of reporting period was:

	Group and Company	
	2019 RM'000	2018 RM'000
Fixed rate instruments		
Borrowings	(98,000)	(105,000)

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.5 Market Risk (Continued)

(b) Interest rate risk (Continued)

Interest rate risk sensitivity analysis

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of reporting period would not affect profit or loss.

27.6 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its trade and other payables and borrowings.

The Group maintains a level of cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due. It is not expected that the cash flows included in the maturity analysis could occur significant earlier, or at significant different amounts.

Maturity analysis

The table below summaries the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Group	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 5 years RM'000
As at 31 December 2019						
Borrowings						
- Trade financing	98,000	3.38%	98,211	98,211	-	-
Trade and other payables	531,370	-	531,370	531,370	-	-
Lease liabilities	7,504	5.72%	7,913	4,599	2,777	537
	636,874		637,494	634,180	2,777	537
As at 31 December 2018						
Borrowings						
- Trade financing	105,000	3.73%	105,326	105,326	-	-
Trade and other payables	414,218	-	414,218	414,218	-	-
	519,218		519,544	519,544	-	-

Notes to the Financial Statements

27. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (CONTINUED)

27.6 Liquidity risk (Continued)

Maturity analysis (Continued)

Company	Carrying amount RM'000	Contractual interest rate	Contractual cash flows RM'000	Under 1 year RM'000	Between 1 and 2 years RM'000	Between 2 and 5 years RM'000
As at 31 December 2019						
Borrowings						
- Trade financing	98,000	3.38%	98,211	98,211	-	-
Trade and other payables	147,108	-	147,108	147,108	-	-
Lease liabilities	2,772	5.72%	2,909	1,782	1,019	108
	<u>247,880</u>		<u>248,228</u>	<u>247,101</u>	<u>1,019</u>	<u>108</u>
As at 31 December 2018						
Borrowings						
- Trade financing	105,000	3.73%	105,326	105,326	-	-
Trade and other payables	146,220	-	146,220	146,220	-	-
	<u>251,220</u>		<u>251,546</u>	<u>251,546</u>	<u>-</u>	<u>-</u>

27.7 Fair values

The carrying amounts of cash and bank balances, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

Notes to the Financial Statements

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details the reconciliation of the opening and closing amounts in the statements of financial position for each liability for which cash flows have been, or would be, classified as financing activities in the statements of cash flows:

Group	Note	As at	Non-cash changes Addition	← Cash Flows →		As at
		1.1.2019/ Date of initial application		Drawdown	Repayment	31.12.2019
		RM'000	RM'000	RM'000	RM'000	RM'000
Current liabilities						
Borrowings	18	105,000	-	766,000	(773,000)	98,000
Lease liabilities	19	10,635	1,977	-	(5,108)	7,504

Company	Note	As at	Non-cash changes Addition	← Cash Flows →		As at
		1.1.2019/ Date of initial application		Drawdown	Repayment	31.12.2019
		RM'000	RM'000	RM'000	RM'000	RM'000
Current liabilities						
Borrowings	18	105,000	-	766,000	(773,000)	98,000
Lease liabilities	19	4,408	429	-	(2,065)	2,772

Group and Company	Note	As at	← Cash Flows →		As at
		1.1.2018	Drawdown	Repayment	31.12.2018
		RM'000	RM'000	RM'000	RM'000
Current liability					
Borrowings	18	101,000	1,421,000	(1,417,000)	105,000