Notes

Quarterly Report: 31st March 2012

1. Accounting Policies

The interim financial report has been prepared in accordance with the reporting requirements as set out in the Malaysian Financial Reporting Standard ("MFRS") 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's annual audited financial statements for the year ended 31st December 2011. The interim financial report also complies with IAS 34 – Interim Financial Reporting issued by the International Accounting Standards Board (IASB). For the periods up to and including the year ended 31st December 2011, the Group prepared its financial report in accordance with Financial Reporting Standards (FRSs).

This interim financial report is the Group's first MFRS compliant interim financial report and hence MFRS 1 – First Time Adoption of Malaysian Financial Reporting Standards has been applied. The transition from FRS to MFRS does not have any significant financial impact to the financial report of the Group.

The audited financial statements of the Group for the year ended 31st December 2011 were prepared in accordance with FRS. As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing this interim financial report are consistent with those of the audited financial statements for the year ended 31st December 2011.

2. Qualification of Preceding Annual Financial Statements

The audit report of the most recent annual financial statements for the year ended 31st December 2011 was not qualified.

3. Seasonal or Cyclical Factors

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the quarter under review.

4. Unusual Items

There was no unusual item affecting assets, liabilities, equity, net income, or cash flows during the quarter.

5. Material Changes In Estimates

There were no material changes in estimates from either the prior interim period or prior financial years that have a material effect in the current quarter results.

6. Debts and Equity Securities

There were no issuances, cancellation, repurchases, resale and repayments of debts and equity securities during the quarter under review.

7. Dividend Paid

There was no dividend paid during the financial period under review.

8. Segmental Reporting

No segmental analysis is prepared as the Group is primarily engaged in the manufacturing and sales of tobacco products in Malaysia.

9. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the financial period under review or being brought forward from the previous Annual Financial Statements.

10. Material Events Subsequent To The End of The Period

There are no material events subsequent to the end of the period reported which have not been reflected in the financial period.

11. Changes In The Composition of The Group

There were no changes in the composition of the Group during the quarter under review.

12. Contingent Liabilities and Contingent Assets

There were no changes in contingent liabilities or contingent assets since the last statement of financial position as at 31st December 2011.

13. Capital Commitments

Capital commitments not provided for in the financial statements as at 31st March 2012 are as follows:

Property, plant and equipment	RM'000
Approved and contracted for	18,058
Approved but not contracted for	10,586

14. Review of Performance

For the quarter under review, the Group registered revenues of RM321.4 million as compared with RM290.7 million for the same period last year. Profit before tax in the current quarter was higher at RM50.6 million compared with RM46.3 million for the same period last year. The increase in revenues was attributed to a 9.4% growth in sales volume in the current quarter compared to a very depressed first quarter last year. The Group's sales volume then was severely impacted by the blatant violation of the Government-mandated Minimum Cigarette Price (MCP). Several brands belonging to small manufacturers were sold below the government mandated minimum price. Profit before tax increased by 9.3% mainly driven by higher sales volume offset partially by higher marketing and operating expenditures.

The Group achieved a stable market share of 19.8% compared to 19.9% in the previous year (Nielsen Retail Audit Report). Whilst Winston, the leader in the Value segment, dropped its market share to 9.8% from 10.2% in 2011, Mild Seven recorded a strong growth, increasing its market share to 4.3% compared with 3.9% in 2011.

15. Comparison with Preceding Quarter's Result

For the quarter under review, the Group registered revenues of RM321.4 million and a profit before tax of RM50.6 million as compared to the preceding quarter's revenues of RM265.6 million and profit before tax of RM23.7 million. The increase in revenues was attributed to higher sales volume in the current quarter as compared to the preceding quarter. In Quarter 4 last year, the trade normalized its inventory post the 2012 trade budget speculation in September. Profit before tax was higher driven by higher sales volume and lower marketing expenditures in the current quarter.

16. Prospects for This Financial Year

In 2011, the overall tobacco industry volume, as measured by the Confederation of Malaysian Tobacco Manufacturers (CMTM), saw a further decline of 2.3% from 2010. Whilst the decline was moderate compared to prior years, the incidence of illegal cigarettes remained high for the full year at 36.1% (Source: Illicit Cigarettes Survey (ICS) commissioned by CMTM).

For 2012, the Group expects the operating environment to remain extremely challenging with illegal cigarettes continuing to be a major threat to the legitimate cigarette manufacturers. The Group strongly support the Government's decision not to impose a cigarette excise tax increase in the 2012 Federal Budget. Coupled with intensified and persistent enforcement by Government Agencies (including possible conviction of illegal traders), the Group is cautiously hopeful that the increasing incidence of illicit cigarettes could possibly be arrested this year.

Amidst these challenges, the Group is committed to maintain its competitiveness through continued effective investment behind its global flagship brands: Winston, Mild Seven and Camel.

17. Profit Forecast or Guarantee

There was no profit forecast or profit guarantee made during the financial period under review.

18. Taxation

	Current Quarter		**Year To Date**	
	RM'000	%	RM'000	%
Profit before taxation	50,642		50,642	
Statutory tax	12,661	25.00	12,661	25.00
Tax effect of non-deductible expenses	233	0.46	233	0.46
Effective tax	12,894	25.46	12,894	25.46

The effective tax rate of the Group for the financial period was higher than the statutory rate due to the tax effect of non-deductible expenses.

19. Notes to the Statement of Comprehensive Income

	3 months ended		**Year to Date**	
	31.03.2012	**31.03.2011**	**31.03.2012**	**31.03.2011**
	RM'000	RM'000	RM'000	RM'000
Inventories written off	-	30	-	30
(Gain) on disposal of disposal of property, plant and equipment	(790)	(104)	(790)	(104)
Loss on foreign exchange	800	195	800	195

There was no interest expense, impairment of assets, allowance for doubtful receivables and bad receivables written off, gain or loss on derivatives and exceptional items for the financial period.

20. Status of Corporate Proposals Announced But Not Completed

There was no corporate proposal announced which was not completed as at the date of this report.

21. Group Borrowing and Debt Securities

There were no borrowings and debt securities as at the end of the reporting period.

22. Disclosure of Derivatives

There were no derivatives entered into by the Group as at the end of the reporting period.

23. Gain/Losses Arising From Fair Value Changes of Financial Liabilities

Financial liabilities of the Group include trade and other payables and intercompany payables. The carrying amounts of the financial liabilities as reported in the statements of financial position as of 31st March 2012 approximate their fair values because of the immediate or short maturity terms of these financial instruments.

24. Material Litigation

There was no material litigation pending since 31st December 2011.

25. Dividends

The Board of Directors has approved and declared a special dividend of 24 sen per share less 25% tax and 38 sen per share, tax exempt under the single-tier system in respect of the financial year ending 31st December 2012, payable on 22nd June 2012. The entitlement date for the said dividend is 12th June 2012.

A depositor shall qualify for entitlement only in respect of:

a) Securities transferred into the Depositor's Securities Account before 4:00 p.m. on 12th June 2012 in respect of transfers; and

b) Securities bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

The Directors had declared a first interim dividend of 15 sen pe share less 25% tax in respect of the first financial quarter ended 31 March 2011 which was paid on 10 June 2011.

26. Earnings Per Share

Earnings per share have been computed based on profit for the period divided by the weighted average number of ordinary shares in issue during the period.

	3 months ended		**Year to Date**	
	31.03.2012	**31.03.2011**	**31.03.2012**	**31.03.2011**
Profit for the period (RM'000)	37,748	34,517	37,748	34,517
Weighted average number of ordinary shares in issue ('000)	261,534	261,534	261,534	261,534
Basic earnings per share (sen)	14.43	13.20	14.43	13.20

27. Realised and Unrealised Profits/Losses

	As at 31.03.2012 RM'000	As at 31.12.2011 RM'000
Total retained earnings:		
Realised	431,833	393,578
Unrealised	(9,483)	(8,976)
Total retained earnings as per statements of financial position	422,350	384,602

By Order of the Board
TAN TEOH HOOI
WONG KWAI YIN
Company Secretary