

Notes

Quarterly Report: 30th June 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

A special dividend of 24 sen per share less 25% tax and 38 sen per share, tax exempt under the single-tier system was paid on 22 June 2012.

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 30th June 2012 are as follows:

Property, plant and equipment	RM'000
Approved and contracted for	24,279
Approved but not contracted for	4,963

14. Review of Performance

For the quarter under review, the Group registered revenues of RM 303.8 million as compared with RM306.6 million for the same period last year. Profit before tax in the current quarter was marginally lower at RM39.5million compared with RM40.9 million for the same period last year. The marginal decrease in revenues was attributed to a 0.8% decline in sales volume in the current quarter compared to the same quarter last year. Mild Seven, our key global flagship brand in the premium segment, continued to show strong growth momentum offsetting partially the marginal decline in Winston, the leader in the value segment. Profit before tax decreased by 3.4% mainly driven by increased marketing and operating expenditures.

For the cumulative period to 30th June 2012, the Group achieved revenues of RM625.2 million as compared with revenues of RM597.4 million for the corresponding period last year. Profit before tax for the first half-year of 2012 was higher at RM90.1 million as compared with RM87.2 million for the corresponding period last year. The 4.7% increase in revenues was attributed to higher sales volume and better product mix. Profit before tax was higher driven by higher sales volume, better product mix offset partially by higher marketing and operating expenditures.

For the first half of 2012, the Group achieved a market share of 19.7% as compared to 20.0% achieved in the same period last year (Nielsen Retail Audit Report). Mild Seven recorded an increase in market share of 0.4 percentage point, increasing its market share to 4.3% compared with 3.9% in 2011. Winston, the leader in the Value segment, dropped its market share to 9.7% from 10.3% in 2011 driven by the continued impact of illicit cigarettes and the sales of cigarettes below the government mandated minimum price. In a continuous effort to build brand equity and drive volume growth, a new range or line extensions of Winston was introduced in April 2012.

15. Comparison with Preceding Quarter's Result

For the quarter under review, the Group registered revenues of RM303.8 million and a profit before tax of RM39.5 million as compared to the preceding quarter's revenues of RM321.4 million and profit before tax of RM50.6 million. The decrease in revenues and profit before tax were attributed to lower sales volume and higher marketing and operating expenditures in the current quarter.

16. Prospects for This Financial Year

The incidence of illegal cigarettes remained high at 34.7% based on the results of the latest illegal cigarette study for the period March to May 2012 (Source: Wave 1, 2012, Illicit Cigarette Survey (ICS) commissioned by Confederation of Tobacco Manufacturers). Comparing with the preceding study in October to December 2011 (Wave 3, 2011), incidence of illegal cigarettes declined marginally by 0.1 percentage point, from 34.8% to 34.7%. However, this latest result showed a significant drop of 2.6 percentage point decline in incidence of illegal cigarettes compared to the same period last year (37.3% in March to May 2011). Nevertheless, the Group is seeing a strong emergence of local brands that are sold illegally at far below the mandated Minimum Cigarette Price.

The Group strongly support the Government 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 confident that the increasing incidence of illegal cigarettes could 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	39,504		90,146	
Statutory tax	9,876	25.00	22,537	25.00
Tax effect of non-deductible expenses	217	0.55	450	0.50
Effective tax	10,093	25.55	22,987	25.50

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	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	RM'000	RM'000	RM'000	RM'000
Inventories written off	-	(4)	-	26
(Gain) on disposal of disposal of property, plant and equipment	(612)	(25)	(1,402)	(129)
Loss on foreign exchange	1,054	285	1,854	480

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 30th June 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 an interim dividend of 11 sen per share, tax exempt under the single-tier system in respect of the financial year ending 31st December 2012 (the previous year's corresponding quarter: 15 sen per share less 25% tax), payable on 14 September 2012. The entitlement date for the said dividend is 29 August 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 29 August 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.

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	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
Profit for the period (RM'000)	29,411	30,471	67,159	64,988
Weighted average number of ordinary shares in issue ('000)	261,534	261,534	261,534	261,534
Basic earnings per share (sen)	11.25	11.65	25.68	24.85

27. Realised and Unrealised Profits/Losses

	As at 30.06.2012 RM'000	As at 31.12.2011 RM'000
Total retained earnings:		
Realised	314,363	393,578
Unrealised	(9,061)	(8,976)
Total retained earnings as per statements of financial position	305,302	384,602

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