**JT International Berhad**
*(9244-D)*

## Notes

**Quarterly Report: 30th September 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

An interim dividend of 11 sen per share, tax exempt under the single-tier system was paid on 14 September 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 September 2012 are as follows:

| Property, plant and equipment | RM'000 |
|---|---|
| Approved and contracted for | 39,357 |
| Approved but not contracted for | 10,164 |

**14. Review of Performance**

For the quarter under review, the Group registered revenues of RM 319.2 million as compared with RM334.9 million for the same period last year. Profit before tax in the current quarter was lower at RM41.8 million compared with RM53.4 million for the same period last year. The decrease in revenues was attributed to an 8.2 % decline in sales volume in the current quarter driven by lower trade speculation ahead of the National Budget announcement. Profit before tax decreased by 21.6% mainly driven by lower sales volume and higher marketing and operating expenditures.

For the cumulative period to 30th September 2012, the Group achieved revenues of RM944.3 million as compared with revenues of RM932.2 million for the corresponding period last year. Profit before tax was lower at RM132.0 million as compared with RM140.6 million for the corresponding period last year. The 1.3% increase in revenues was attributed to better product mix. Profit before tax was lower driven by higher marketing and operating expenditures offset partially by better product mix.

For the first nine months of 2012, the Group achieved a market share of 19.6% as compared to 19.9% achieved in the same period last year (*Nielsen Retail Audit Report*). Mild Seven recorded an increase in market share of 0.3 percentage point increasing its market share to 4.3% compared with 4.0% in 2011. Winston, the leader in the Value segment, dropped its market share to 9.8% from 10.1% in 2011 driven by the continued impact of illicit cigarettes and the sales of cigarettes below the government mandated minimum price.

**15. Comparison with Preceding Quarter's Result**

For the quarter under review, the Group registered revenues of RM319.2 million and a profit before tax of RM41.8 million as compared to the preceding quarter's revenues of RM303.8 million and profit before tax of RM39.5 million. The increase in revenues and profit before tax was driven by higher sales volume in the current quarter.

**16. Prospects for This Financial Year**

For the remainder of 2012, JTI Malaysia expects the operating environment to remain challenging, with the sale of illegal cigarettes continuing to be a major concern to the legitimate tobacco industry. The incidence of illegal cigarettes remained high at 34.9% based on the results of the latest illegal cigarette study for the period June to August 2012 (*Source: Wave 2, 2012, Illicit Cigarette Survey (ICS) commissioned by Confederation of Tobacco Manufacturers*). Comparing with the preceding study in March to May 2012 (*Wave 1, 2012*), incidence of illegal cigarettes increased marginally by 0.2 percentage point, from 34.7% to 34.9%. However, this latest result showed a marginal decline of 1.4 percentage point in incidence of illegal cigarettes compared to the same period last year (*36.3% in June to August 2011*). The Group remains confident that the incidence of illegal cigarettes could be reduced if the enforcement efforts by Malaysian law enforcement agencies are intensified.

JTI Malaysia strongly supports the Government's decision not to impose a cigarette excise tax increase in the 2013 Federal Budget. Unfortunately, effective 19th October 2012, the Royal Malaysian Customs imposed a mandatory increase in the Group's ex-factory pricing resulting in higher ad-valorem excise and sales taxes to the Group. As a result, the Group has taken a 20 sen per pack price increase for all its brands with effect from 25th October 2012.

The first nine months of 2012 has been challenging for the Group. Winston, the Group's leading volume contributor, continues to face headwinds from the high prevalence of illicit cigarettes and the impact from certain local brands selling below the Government mandated minimum price. However, the Group is committed to maintain its competitiveness through continued investment behind its Global Flagship Brands: Winston and Mild Seven.

**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 | 41,825 | | 131,971 | |
| Statutory tax | 10,456 | 25.00 | 32,993 | 25.00 |
| Tax effect of non-deductible expenses | 210 | 0.50 | 660 | 0.50 |
| Effective tax | 10,666 | 25.50 | 33,653 | 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 | |
|---|---|---|---|---|
| | **30.09.2012** | **30.09.2011** | **30.09.2012** | **30.09.2011** |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Inventories written off | 3 | 2 | 3 | 28 |
| (Gain) on disposal of disposal of property, plant and equipment | (80) | (3) | (1,482) | (132) |
| Loss on foreign exchange | 914 | 770 | 2,768 | 1,250 |

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 30$^{th}$ September 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 31$^{st}$ 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 31$^{st}$ December 2012 (the previous year's corresponding quarter: nil), payable on 21 December 2012. The entitlement date for the said dividend is 14 December 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 14 December 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 | |
|---|---|---|---|---|
| | **30.09.2012** | **30.09.2011** | **30.09.2012** | **30.09.2011** |
| Profit for the period (RM'000) | 31,159 | 39,752 | 98,318 | 104,740 |
| Weighted average number of ordinary shares in issue ('000) | 261,534 | 261,534 | 261,534 | 261,534 |
| Basic earnings per share (sen) | 11.91 | 15.20 | 37.59 | 40.05 |

## 27. Realised and Unrealised Profits/Losses

| | As at<br>30.09.2012<br>RM'000 | As at<br>31.12.2011<br>RM'000 |
|---|---|---|
| Total retained earnings: | | |
| Realised | 317,002 | 393,578 |
| Unrealised | (9,310) | (8,976) |
| Total retained earnings as per statements of financial position | 307,692 | 384,602 |

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