

Notes

Quarterly Report: 31st December 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 MFRS compliant and MFRS 1 – First Time Adoption of Malaysian Financial Reporting Standards has been applied in the financial report. 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 21 December 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 31st December 2012 are as follows:

Property, plant and equipment	RM'000
Approved and contracted for	32,474
Approved but not contracted for	3,025

14. Review of Performance

For the quarter under review, the Group registered revenues of RM 290.0 million as compared with RM265.6 million for the same period last year. The increase in revenues was attributed to a 7.2% increase in sales volume in the current quarter compared to the same quarter last year. Profit before tax in the current quarter was lower at RM9.6 million compared with RM23.7 million for the same period last year, driven by the impact of the restructuring of the Group leaf and stemmery operations.

Following an extensive review of the business and operation environment, which have been extremely challenging over the past few years, the Group ceased the leaf and stemmery operations in the fourth quarter of 2012. In addition, the Group also ceased the purchase of local leaf from growers. This restructuring resulted in a one-time financial impact of RM12.2 million in the current quarter. These charges included an impairment of plant and machinery (RM3.3 million), employee redundancy payments (RM4.2 million), and a goodwill exit payments to growers (RM3.1 million).

For the year under review, the Group achieved revenues of RM1234.3 million as compared with revenues of RM1197.8 million for the corresponding period last year. The 3.0% increase in revenues was mainly attributed to higher sales volume and better product mix. Profit before tax was lower at RM141.5 million as compared with RM164.3 million for the corresponding period last year, mainly driven by the one-time restructuring impact of the Group leaf and stemmery operations and higher marketing investments & operating expenditures offset partially by higher sales volume and better product mix.

Despite the significant external challenges, the Group managed to achieve 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 4.4% compared with 4.1% in 2011. Winston, the leader in the Value segment, saw its market share decline to 9.8% from 10.0% 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 RM290.0 million and a profit before tax of RM9.6 million as compared to the preceding quarter's revenues of RM319.2 million and profit before tax of RM41.8 million. The decrease in revenues is mainly driven by lower sales volume in the current quarter. Profit before tax is also lower, driven by lower sales volume, higher marketing investments and the one-time restructuring impact of the Group leaf and stemmery operations.

16. Prospects for Next Financial Year

For 2013, JTI Malaysia expects the operating environment to remain challenging, driven by the continued impact of the sale of illegal cigarettes and the impact from certain local brands selling below the Government mandated minimum price. The incidence of illegal cigarettes has remained high at 34.5% (Source: Wave 1 to Wave 3, 2012, Illicit Cigarette Survey (ICS) commissioned by Confederation of Tobacco Manufacturers). Nevertheless, the Group remains confident that the incidence of illegal cigarettes can be reduced if the enforcement efforts by the Malaysian law enforcement agencies are intensified.

Despite this challenging operating environment, the Group is committed to maintain its competitiveness through continued effective 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	9,571		141,542	
Statutory tax	2,393	25.00	35,386	25.00
Tax effect of non-deductible expenses	2,424	25.33	3,084	2.18
Under provision of prior year's taxation	1,760	18.39	1,760	1.24
Effective tax	6,577	68.72	40,230	28.42

The effective tax rates of the Group for the financial period and financial year were higher than the statutory rate due to the tax effect of non-deductible expenses and under provision of prior year's taxation.

19. Notes to the Statement of Comprehensive Income

	3 months ended		Year to Date	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	RM'000	RM'000	RM'000	RM'000
(Reversal of)/Inventories written off	(106)	708	(103)	736
(Gain) on disposal of disposal of property, plant and equipment	(1,172)	(48)	(2,654)	(180)
Loss on foreign exchange	697	486	3,465	1,736
Impairment of assets	3,326	-	3,326	-
Allowance for/(Reversal of) doubtful receivables and bad receivables written off	36	(1,770)	36	(1,770)

There was no interest expense, gain or loss on derivatives and exceptional items for the financial quarter and financial year to date.

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 December 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 does not recommend the payment of a dividend for the financial quarter under review.

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	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Profit for the period (RM'000)	2,994	18,071	101,312	122,811
Weighted average number of ordinary shares in issue ('000)	261,534	261,534	261,534	261,534
Basic earnings per share (sen)	1.14	6.91	38.74	46.96

27. Realised and Unrealised Profits/Losses

	As at 31.12.2012 RM'000	As at 31.12.2011 RM'000
Total retained earnings:		
Realised	290,739	393,578
Unrealised	(8,822)	(8,976)
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Total retained earnings as per statements of financial position	281,917	384,602
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By Order of the Board
YONG LAI CHIN
WONG KWAI YIN
Company Secretary