

**Notes**

**Quarterly Report: 30<sup>th</sup> June 2013**

**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 31<sup>st</sup> December 2012.

The audited financial statements of the Group for the year ended 31<sup>st</sup> December 2012 were prepared in accordance with MFRS. The significant accounting policies adopted in preparing this interim financial report are consistent with those of the audited financial statements for the year ended 31<sup>st</sup> December 2012.

**2. Qualification of Preceding Annual Financial Statements**

The audit report of the most recent annual financial statements for the year ended 31<sup>st</sup> December 2012 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 31<sup>st</sup> December 2012.

**13. Capital Commitments**

Capital commitments not provided for in the financial statements as at 30<sup>th</sup> June 2013 are as follows:

Property, plant and equipment	RM'000
Approved and contracted for	58,188
Approved but not contracted for	12,887

**14. Review of Performance**

For the quarter under review, the Group registered revenues of RM 325.2 million as compared with RM303.8 million for the same period last year. The increase in revenues was mainly attributed to a 1.8% increase in sales volume in the current quarter compared to the same quarter last year. Profit before tax in the current quarter was higher at RM41.5 million compared with RM39.5 million for the same period last year. Profit before tax was higher, driven by higher sales volume, higher net margins and better product mix offset partially by higher marketing investments.

For the cumulative period to 30<sup>th</sup> June 2013, the Group achieved revenues of RM635.2 million as compared with revenues of RM625.2 million for the corresponding period last year. The marginal increase in revenues was attributed to higher cigarette prices and better product mix, offset by a 2.7% decline in sales volume. Profit before tax for the first half-year of 2013 was higher at RM94.9 million as compared with RM90.1 million for the corresponding period last year. Profit before tax was higher, driven by higher net margins and better product mix, offset partially by lower sales volume and higher marketing investments.

For the first half of 2013, the Group achieved a stable market share of 19.7% as compared to 19.5% achieved in the same period last year (*Nielsen Retail Audit Report*). Mild Seven (*which has been renamed Mevius beginning May 2013*) recorded an increase in market share of 0.1 percentage point, increasing its market share to 4.4% compared with 4.3% in 2012. Winston, the leader in the Value segment, increased its market share to 10.0% from 9.7% in 2012 despite 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 RM325.2 million as compared with revenues of RM309.9 million for the preceding quarter. The increase in revenues was attributed to higher sales volume in the current quarter compared to the preceding quarter. Profit before tax in the current quarter was lower at RM41.5 million compared with RM53.4 million in the preceding quarter. Profit before tax was lower, driven by higher marketing investments offset partially by higher sales volume in the current quarter.

**16. Prospects for This Financial Year**

For the remainder of 2013, JTI Malaysia expects the operating environment to remain challenging due to the continued impact of certain local brands selling below the government mandated minimum cigarette price and the high prevalence of illegal cigarettes.

The incidence of illegal cigarettes remained high at 33.6% based on the results of the latest illegal cigarette study for the period March to May 2013 (Source: Wave 1, 2013, *Illicit Cigarette Survey (ICS) commissioned by Confederation of Tobacco Manufacturers*). Comparing with the preceding study in October to December 2012 (Wave 3, 2012), incidence of illegal cigarettes declined marginally by 0.2 percentage point, from 33.8% to 33.6%. 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. JTI Malaysia hopes that the Government will continue with its prudent and pragmatic approach to excise tax this year to further address the illegal cigarettes trade situation.

Despite this challenging operating environment, the Group is committed to maintain its competitiveness through continued effective investment behind its Global Flagship Brands: Mevius (formerly Mild seven) and Winston.

**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	41,532		94,882	
Statutory tax	10,383	25.00	23,721	25.00
Tax effect of non-deductible expenses	208	0.50	474	0.50
Effective tax	10,591	25.50	24,195	25.50

The effective tax rates 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	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Inventories written off	-	-	22	-
(Gain) on disposal of disposal of property, plant and equipment	(217)	(612)	(1,028)	(1,402)
Loss on foreign exchange	282	1,054	977	1,854

There was no interest expense, gain or loss on derivatives, impairment of assets, allowance for doubtful receivables and bad receivables written off 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 30<sup>th</sup> June 2013 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<sup>st</sup> December 2012.

**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<sup>st</sup> December 2013 (the previous year's corresponding quarter: single-tier tax exempt dividend of 11 sen per share), payable on 25 October 2013. The entitlement date for the said dividend is 30 September 2013.

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 30 September 2013 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	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
Profit for the period (RM'000)	30,941	29,411	70,687	67,159
Weighted average number of ordinary shares in issue ('000)	261,534	261,534	261,534	261,534
Basic earnings per share (sen)	11.83	11.25	27.03	25.68



**27. Realised and Unrealised Profits/Losses**

	<b>As at 30.06.2013 RM'000</b>	<b>As at 31.12.2012 RM'000</b>
Total retained earnings:		
Realised	305,478	292,315
Unrealised	<u>(7,796)</u>	<u>(10,398)</u>
Total retained earnings as per statements of financial position	<u>297,682</u>	<u>281,917</u>

**By Order of the Board  
YONG LAI CHIN  
WONG KWAI YIN  
Company Secretary**