

Notes

Quarterly Report: 31st March 2014

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 2013.

The audited financial statements of the Group for the year ended 31st December 2013 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 31st December 2013.

2. Qualification of Preceding Annual Financial Statements

The audit report of the most recent annual financial statements for the year ended 31st December 2013 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

On 31 March, 2014, JT International Berhad (“JTI Malaysia” or “Company”) received a Notice of Conditional Take-Over Offer from JT International Holding B.V. (“Offeror”) through CIMB Investment Bank Berhad (“CIMB”) to acquire all the remaining ordinary shares of RM0.25 each in JTI Malaysia which are not already held by the Offeror (“Offer Shares”) at a cash offer price of RM7.80 per Offer Share (“Offer”).

On 7 April 2014, the Board of Directors of JTI Malaysia appointed Public Investment Bank Berhad (“PIVB”) as the independent adviser to advise the non-interested directors and the holders of the Offer Shares in relation to the Offer.

The offer documents dated 21 April 2014 which sets out the details as well as the terms and conditions of the Offer were despatched to the shareholders of the Company on 21 April 2014.

The independent advice circular to shareholders in relation to the Offer was despatched to the shareholders on 2 May 2014.

On 9 May 2014, the Company received a press notice from CIMB, on behalf of the Offeror, informing the holders of the Offer Shares that the closing time and date for the acceptance of the Offer have been extended to 5.00 p.m. (Malaysian time) on 26 May 2014.

On 21 May 2014, the Company received a Notice of Revised Offer from CIMB, on behalf of the Offeror, informing that the offer price for the Offer Shares has been revised to RM8.20 per Offer Share (“Revised Offer”). The Revised Offer remained open for acceptances up to 5.00 p.m. (Malaysian time) on 5 June 2014.

On 22 May 2014, the Independent Adviser, PIVB issued a press notice advising the non-interested directors and the holders of the Offer Shares in relation to the Revised Offer.

On 27 May 2014, the Offer has become unconditional following the Offeror’s receipt of valid acceptances in respect of the Revised Offer resulting in the Offeror holding not less than nine-tenths (9/10) in the nominal value of the Offer Shares. Arising from the above, as JTI Malaysia does not meet its public shareholding spread as a result of the Revised Offer and that the Offeror has no intention to maintain the listing status of JTI Malaysia on Bursa Malaysia Securities Berhad (“Bursa Securities”), Bursa Securities will suspend the trading of JTI Malaysia shares from 9.00 a.m. on Wednesday, 4 June 2014. The Offeror will procure JTI Malaysia to withdraw its listing status from the Official List of Bursa Securities in accordance with the Listing Requirements. In addition, the Offeror will, within two (2) months from 27 May 2014, proceed to exercise its rights to compulsorily acquire any remaining Offer Shares for which acceptances have not been received, in accordance with the provisions of the Capital Markets and Services Act, 2007. The Revised Offer remained open for acceptances up to 5.00 p.m. (Malaysian time) on Tuesday, 10 June 2014. No further extension of the closing date for the Revised Offer will be made.

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 2013.

13. Capital Commitments

Capital commitments not provided for in the financial statements as at 31st March 2014 are as follows:

Property, plant and equipment	RM'000
Approved and contracted for	60,177
Approved but not contracted for	19,122

14. Review of Performance

For the quarter under review, the Group registered revenues of RM 345.9 million as compared with RM309.9 million for the same period last year. The increase in revenues was mainly attributed to higher cigarette prices offset partially by a 6.4 % decline in sales volume in the current quarter compared to the same quarter last year. Profit before tax in the current quarter was higher at RM55.1 million compared with RM53.4 million for the same period last year, driven by higher net margins offset partially by lower sales volume, weaker product mix, higher marketing investments and higher operating expenditures.

Despite facing significant external challenges, the Group achieved a market share growth of 0.6 percentage point to 20.4% from 19.6% in the same period last year (Nielsen Retail Audit Report). Premium brand Mevius, recorded a market share growth of 0.3 percentage point, increasing its market share to 4.7% compared with 4.4% in 2013. Winston, the leader in the value segment, grew its market share to 10.4% from 10.0% in 2013 despite the continued impact of illicit cigarettes and the sales of cigarettes below the government mandated minimum cigarette price.

15. Comparison with Preceding Quarter's Result

For the quarter under review, the Group registered revenues of RM345.9 million as compared with revenues of RM330.8 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 higher at RM55.1 million compared with RM28.1 million in the preceding quarter, mainly driven by higher sales volume, lower marketing investments and lower operating expenditures in the current quarter.

16. Prospects for This Financial Year

For the remainder of 2014, JTI Malaysia expects the operating environment to remain extremely challenging; driven by the 14% cigarette price increase in October 2013 and the continued high prevalence of illegal cigarettes in the market. The incidence of illegal cigarettes recorded a 3 year high of 38.9% (Source: Wave 3, October to December 2013, Illicit Cigarette Survey (ICS) commissioned by Confederation of Tobacco Manufacturers) in the last quarter of 2013. In the first quarter of 2014, industry legal domestic consumption (as measured by AC Nielsen) declined 7.7% compared to the same period last year.

While JTI Malaysia is concerned with the continued decline of the legal domestic market, it welcomes the recent step-up in anti-illegal cigarettes enforcement efforts by the Royal Malaysian Customs. In an environment of continued inflationary pressures and weak consumer sentiment, the outlook for the Group is highly dependent on the continued intensified enforcement efforts of all the Malaysian law enforcement agencies to drive a reduction in the incidence of illegal cigarettes.

Despite this challenging operating environment, the Group is committed to maintain its competitiveness through continued effective investment behind its Global Flagship Brands: Mevius 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	55,067		55,067	
Statutory tax	13,767	25.00	13,767	25.00
Tax effect of non-deductible expenses	275	0.50	275	0.50
Effective tax	14,042	25.50	14,042	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	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Inventories written off	180	22	180	22
Reversal of allowance for doubtful receivables	(30)	-	(30)	-
Gain on disposal of property, plant and equipment	(1,109)	(811)	(1,109)	(811)
Loss on foreign exchange	749	695	749	695

There was no interest expense, impairment of assets, 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 March 2014 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 2013.

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	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Profit for the period (RM'000)	41,025	39,746	41,025	39,746
Weighted average number of ordinary shares in issue ('000)	261,534	261,534	261,534	261,534
Basic earnings per share (sen)	15.69	15.20	15.69	15.20

27. Realised and Unrealised Profits/Losses

	<u>As at</u> <u>31.03.2014</u> RM'000	<u>As at</u> <u>31.12.2013</u> RM'000
Total retained earnings:		
Realised	337,788	295,638
Unrealised	(9,103)	(7,978)
Total retained earnings as per statements of financial position	<u>328,685</u>	<u>287,660</u>

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