



BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE QUARTER 30 JUNE 2020**

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2020

	Note	For the 3 months ended		For the period ended	
		30.6.2020	30.6.2019	30.6.2020	30.6.2019
		RM'000	RM'000	RM'000	RM'000
Revenue		546,588	640,805	1,027,734	1,261,763
Cost of sales		(406,644)	(457,267)	(764,716)	(897,479)
Gross profit		139,944	183,538	263,018	364,284
Other operating income		251	828	712	4,924
Operating expenses		(57,238)	(77,335)	(109,414)	(142,062)
Profit from operations		82,957	107,031	154,316	227,146
Finance costs		(4,860)	(4,323)	(9,280)	(7,849)
Profit before tax	B2	78,097	102,708	145,036	219,297
Tax expense	B3	(23,486)	(26,443)	(39,659)	(54,432)
Profit after tax		54,611	76,265	105,377	164,865
Profit attributable to the shareholders of the Company		54,611	76,265	105,377	164,865
Effective tax rate		30%	26%	27%	25%
EPS	B10	19.1	26.7	36.9	57.7
<u>Dividends</u>					
- Interim 1		-	-	17	30
- Interim 2		18	26	18	26
		18	26	35	56

The unaudited Condensed Consolidated Income Statement should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2019.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE PERIOD ENDED 30 JUNE 2020

	For the 3 months ended		For the period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Profit after tax	54,611	76,265	105,377	164,865
Other comprehensive income, net of tax				
Items that may be subsequently reclassified to income statement				
- changes in fair value of cash flow hedges	(4,064)	1,272	5,249	375
- deferred tax on fair value changes of cash flow hedges	975	(305)	(1,260)	(90)
Total other comprehensive (expense)/ income, net of tax	<u>(3,089)</u>	<u>967</u>	<u>3,989</u>	<u>285</u>
Total comprehensive income	<u>51,522</u>	<u>77,232</u>	<u>109,366</u>	<u>165,150</u>
Profit attributable to:				
Shareholders of the Company	<u>54,611</u>	<u>76,265</u>	<u>105,377</u>	<u>164,865</u>
Total comprehensive income attributable to:				
Shareholders of the Company	<u>51,522</u>	<u>77,232</u>	<u>109,366</u>	<u>165,150</u>

The unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2019.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
Registration No. 196101000326 (4372-M)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2020

		As at 30.6.2020	As at 31.12.2019
	Note	RM'000	RM'000
Assets			
Property, plant and equipment		59,005	65,505
Computer software		1,426	1,429
Goodwill		411,618	411,618
Deferred tax assets		15,499	19,376
Total non-current assets		<u>487,548</u>	<u>497,928</u>
Asset held for sale		-	234
Inventories		216,752	98,251
Tax recoverable		4,324	8,222
Trade and other receivables		370,944	402,947
Derivative financial instruments		3,946	177
Cash and bank balances		6,377	20,386
Total current assets		<u>602,343</u>	<u>530,217</u>
Total assets		<u><u>1,089,891</u></u>	<u><u>1,028,145</u></u>
Equity			
Share capital		142,765	142,765
Cash flow hedge reserve		2,478	(1,511)
Retained earnings		209,939	247,327
Total equity		<u>355,182</u>	<u>388,581</u>
Liabilities			
Lease liabilities		20,585	21,844
Total non-current liabilities		<u>20,585</u>	<u>21,844</u>
Trade and other payables		142,893	170,661
Borrowings	B5	525,000	421,000
Derivative financial instruments		488	2,171
Current tax liabilities		41,915	19,531
Lease liabilities		3,828	4,357
Total current liabilities		<u>714,124</u>	<u>617,720</u>
Total liabilities		<u>734,709</u>	<u>639,564</u>
Total equity and liabilities		<u><u>1,089,891</u></u>	<u><u>1,028,145</u></u>
Net assets per share (RM)		1.24	1.36

The unaudited Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2019.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2020

	Issued and fully paid ordinary shares		Non-distributable		Distributable	Total Equity
	Number of shares	Nominal value	Cash flow hedge reserve	Share-based payment reserve	Retained earnings	
	'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2020	285,530	142,765	(1,511)	-	247,327	388,581
Profit after tax	-	-	-	-	105,377	105,377
Other comprehensive income:						
- changes in fair value of cash flow hedges	-	-	5,249	-	-	5,249
- deferred tax on fair value changes on cash flow hedges	-	-	(1,260)	-	-	(1,260)
Total comprehensive income	-	-	3,989	-	105,377	109,366
Transaction with shareholders:						
Dividend for financial year ended 31 December 2019 - fourth interim	-	-	-	-	(94,225)	(94,225)
Dividend for financial year ended 31 December 2020 - first interim	-	-	-	-	(48,540)	(48,540)
Total transactions with shareholders of the Company	-	-	-	-	(142,765)	(142,765)
At 30 June 2020	285,530	142,765	2,478	-	209,939	355,182
At 1 January 2019	285,530	142,765	374	-	278,528	421,667
Profit after tax	-	-	-	-	164,865	164,865
Other comprehensive income:						
- changes in fair value of cash flow hedges	-	-	375	-	-	375
- deferred tax on fair value changes on cash flow hedges	-	-	(90)	-	-	(90)
Total comprehensive income	-	-	285	-	164,865	165,150
Transaction with shareholders:						
Dividend for financial year ended 31 December 2018 - fourth interim	-	-	-	-	(134,199)	(134,199)
Dividend for financial year ended 31 December 2019 - first interim	-	-	-	-	(85,659)	(85,659)
Total transactions with shareholders of the Company	-	-	-	-	(219,858)	(219,858)
At 30 June 2019	285,530	142,765	659	-	223,535	366,959

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2019.

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
Registration No. 196101000326 (4372-M)

UNAUDITED CONDENSED CONSOLIDATED CASH FLOWS STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2020

	For the 6 months ended	
	30.6.2020	30.6.2019
	RM'000	RM'000
Operating activities		
Cash receipts from customers and fellow subsidiaries	1,059,710	1,354,487
Cash paid to suppliers, employees and fellow subsidiaries	(1,013,368)	(1,105,946)
Cash from operations	<u>46,342</u>	<u>248,541</u>
Income taxes paid	(10,760)	(75,438)
Net cash flow from operating activities	<u>35,582</u>	<u>173,103</u>
Investing activities		
Purchase of property, plant and equipment	(1,123)	(1,944)
Proceeds from disposals of property, plant and equipment	337	2,453
Proceeds from disposal of assets held for sale	620	680
Interest received	563	670
Net cash flow from investing activities	<u>397</u>	<u>1,859</u>
Financing activities		
Dividends paid to shareholders	(142,765)	(219,858)
Interest expense paid	(8,791)	(7,265)
Net drawdown from revolving credit	104,000	(14,000)
Payment on lease liabilities	(1,943)	(2,137)
Interest paid in relation to lease liabilities	(489)	(584)
Net cash flow used in financing activities	<u>(49,988)</u>	<u>(243,844)</u>
Decrease in cash and cash equivalents	(14,009)	(68,882)
Cash and cash equivalents as at 1 January	<u>20,386</u>	<u>78,627</u>
Cash and cash equivalents as at 30 June	<u>6,377</u>	<u>9,745</u>

The unaudited Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Audited Financial Statements of the Group for the year ended 31 December 2019.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

These condensed consolidated financial statements ("Condensed Report") are unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standard ("MFRS") 134 *Interim Financial Reporting*, the International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and the requirements of the Companies Act 2016 in Malaysia, where applicable. This Condensed Report has also been prepared in accordance with paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

This Condensed Report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2019. The explanatory notes attached to the Condensed Report provide explanations of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2019.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of this Condensed Report are consistent with those adopted in the preparation of the Group's audited financial statements for the financial year ended 31 December 2019. As at the date of authorisation of this Condensed Report, the following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)

Amendments to MFRS 3, Business Combinations – Reference to the Conceptual Framework

Amendments to MFRS 9, Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)

Amendments to Illustrative Examples accompanying MFRS 16, Leases (Annual Improvements to MFRS Standards 2018–2020)

Amendments to MFRS 101, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

Amendments to MFRS 116, Property, Plant and Equipment – Proceeds before Intended Use

Amendments to MFRS 137, Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract

Amendments to MFRS 141, Agriculture (Annual Improvements to MFRS Standards 2018–2020)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group plans to apply the abovementioned accounting standards, interpretations and amendments, where applicable:

- from the annual period beginning on 1 January 2021 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2021; and
- from the annual period beginning on 1 January 2022 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2022.

The Group does not plan to apply MFRS 17, Insurance Contracts that is effective for annual period beginning on 1 January 2021 as it is not applicable to the Group. The initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impact to the Group.

A3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The results of the Group are generally impacted by changes in excise typically announced annually during the National Budget.

A4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no significant unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial period ended 30 June 2020, other than the exercise to restructure the business operations of the Group.

During the fourth quarter of 2019, the Group had undertaken measures in restructuring the organisation to be more efficient, agile and focused to enable the Group to operate in a challenging business environment. This restructuring resulted in a reduction of the workforce and reconstructed a new base for sustainable cost structure. The restructuring commenced in the fourth quarter of 2019 and is expected to be completed in 2020.

The financial impact arising from the abovementioned restructuring of business operations is set out below:

	3 months ended		Financial period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Provision for redundancies	6,573	-	10,810	-

A5. SIGNIFICANT CHANGES IN ESTIMATE

There were no significant changes in estimates that have had a material effect during the current quarter and financial period ended 30 June 2020.

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A6. DEBT AND EQUITY SECURITIES

There were no issuances, repurchases and repayments of debt and equity securities during the current quarter and financial period ended 30 June 2020.

A7. SEGMENT REPORTING

The Group is domiciled in Malaysia. The analysis of revenue from external customers in Malaysia is as follows:

	3 months ended		Financial period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Sale of semi-finished goods, cigarettes, pipe tobaccos, cigars and other tobacco products	<u>546,588</u>	<u>640,805</u>	<u>1,027,734</u>	<u>1,261,763</u>

The Group does not have any non-current assets that are located in countries other than Malaysia.

Segment analysis has not been prepared as the Group operates a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information to the chief operational decision maker and it is not possible to segment the Group results by brand without a high degree of estimation.

A8. EVENTS AFTER THE REPORTING PERIOD

There were no material events subsequent to the end of the financial period under review that have not been reflected in the quarterly report.

A9. CHANGES IN COMPOSITION OF GROUP

There were no changes in the composition of the Group during the current quarter and financial period ended 30 June 2020.

A10. CONTINGENT ASSETS AND LIABILITIES

There were no other contingent liabilities or contingent assets as at 16 July 2020 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A11. CAPITAL COMMITMENTS

Capital commitments of the Group as at the end of the financial period are as follows:

	As at 30.6.2020 RM'000	As at 31.12.2019 RM'000
Property, plant and equipment:		
Approved and contracted for	30	15
Approved but not contracted for	4,865	-
	4,895	15

A12. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of this quarterly report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group.

The Group has related party relationships with its holding company, subsidiaries and key management personnel. Significant related party transactions are as follows:

	3 months ended		Financial period ended	
	30.6.2020 RM'000	30.6.2019 RM'000	30.6.2020 RM'000	30.6.2019 RM'000
Purchase of leaf, cigarette packaging, wrapping materials and tobacco products from:				
PT Bentoel Prima	36,470	-	79,644	-
PT Bentoel Internasional Investama, Tbk	-	50,756	-	93,667
Royalties paid/payable to:				
British-American Tobacco (Holdings) Ltd.	17,582	22,372	33,208	43,015
Technical and advisory support services fee payable to:				
British American Tobacco Investments Ltd.	5,398	6,408	9,999	12,675

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B1. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the annual financial statements of the Group for the year ended 31 December 2019 was unqualified.

B2. PROFIT BEFORE TAX

	3 months ended		Financial period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at after charging:				
Finance costs:				
- lease liabilities	237	285	489	584
- borrowings	4,623	4,038	8,791	7,265
Property, plant and equipment:				
- depreciation	1,896	1,882	3,838	3,796
- depreciation of right-of-use assets	1,685	1,689	3,363	3,365
- loss on disposal	-	-	237	-
- write-off	-	-	4	-
Computer software:				
- amortisation	-	-	3	-
Net loss on impairment of financial assets at amortised cost	67	99	27	70
Inventories written down	1,525	1,752	2,411	2,880
Net foreign exchange loss	320	399	1,291	-
Loss on derivatives	-	-	-	161
Restructuring expenses	<u>6,573</u>	<u>-</u>	<u>10,810</u>	<u>-</u>
and after crediting:				
Interest income on deposits	251	203	563	670
Property, plant and equipment:				
- gain on disposal	-	60	-	237
Gain on disposal of assets held for sale	-	566	386	566
Net foreign exchange gain	-	-	-	400
Gain on derivatives	<u>779</u>	<u>34</u>	<u>931</u>	<u>-</u>

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B3. TAX EXPENSE

	3 months ended		Financial period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
- current tax	19,996	30,610	37,042	61,239
Deferred tax expense				
- additional / (reversal) of temporary differences	3,490	(4,167)	2,617	(6,807)
	<u>23,486</u>	<u>26,443</u>	<u>39,659</u>	<u>54,432</u>

The average effective tax rate of the Group for the second quarter 2020 and financial period ended 30 June 2020 were 30.1% (2019: 25.7%) and 27.3% (2019: 24.8%) respectively.

The increase in the average effective tax rate in the second quarter 2020 was mainly attributed to non-deductible expenses.

B4. CORPORATE PROPOSAL

Tobacco Importers and Manufacturers Sdn. Berhad ("TIM"), a wholly-owned subsidiary of the Company had undertaken a selective capital reduction pursuant to Section 116(7) of the Companies Act 2016 to cancel 250,000,000 ordinary shares in TIM resulting in TIM's paid up capital being reduced from 310,998,952 ordinary shares to 60,988,952 ordinary shares and the credit of RM250,000,000 arising from the cancellation of 250,000,000 ordinary shares in TIM held by the Company had been distributed in cash to the Company.

On 4th February 2020, TIM effected the capital repayment of RM250,000,000 to the Company. The cancellation does not have any financial and/or operational impact on the Group for the period ended 30 June 2020.

PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B5. BORROWINGS

The Group's borrowings as at the end of the financial period are as follows:

	As at 30.6.2020 RM'000	As at 31.12.2019 RM'000
Current Borrowings – unsecured	<u>525,000</u>	<u>421,000</u>

The Group's borrowings relate to revolving credits maturing between one week to three months. The Group's borrowings are denominated in Ringgit Malaysia.

B6. MATERIAL LITIGATION

On 14 November 2019, Commercial Marketers and Distributors (CMD), one of the subsidiaries of the Company, filed an application for judicial review proceedings against the decisions of the Ministry of Health (MOH) in recategorising its non-cigarette tobacco product, Dunhill HTL Cigarillo, as a cigarette and revoking its approval granted on 12 July 2018 for CMD to sell Dunhill HTL Cigarillo ("MOH Decisions"). In its application, CMD is asking for the MOH Decisions to be nullified and damages to be assessed by the Court.

On 8 January 2020, CMD managed to obtain leave from the Court to commence judicial review proceedings against the MOH and the case is ongoing with the next hearing scheduled on 27 August 2020. There is no estimated potential liability to BATM group arising at this point in time.

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B7. MATERIAL CHANGES IN THE QUARTERLY RESULTS AS COMPARED WITH THE PRECEDING QUARTER

There was minimal impact arising from COVID-19 on the Group's business operations in this quarter. In the Domestic market, the impact resulting from operations disruption due to the Movement Control Order (MCO) in April was offset by the ramp up of sales and distribution activities during May. In the Duty-Free channel, although the travel restrictions continued in quarter 2 impacting Duty-Free volume by 36% versus quarter 1, the impact to the overall Group's financials was not material (Duty Free revenue represented 4% of total revenue in 2019). The management closely monitored liquidity and working capital via a tight review of cash flow. Moreover, there were no defaults identified from any trade receivables in the quarter.

During the MCO and Conditional Movement Control Order (CMCO) periods, the Group ensured strict adherence and compliance to Standard Operating Procedures (SOP). The well-being and safety of employees continues to be the Group's utmost priority.

Legal Domestic industry volume improved by 10% in the second quarter of 2020 as compared to the preceding quarter mainly driven by the short-term spike in consumer spending during the Hari Raya celebration as well as volume recovery subsequent to the MCO. The Group's Domestic volume increased by 15%, higher versus the industry due to the fast response to market demand with full replenishment achieved within first week of operation in May and distribution targeted at the organised convenience stores in line with the retail landscape shift due to closure of most restaurants and cafes during the MCO. Due to the fast and agile response to the market, the Group has seen an encouraging result with a 1.9 percentage points increase in share of market in convenience stores versus the preceding quarter (Source: Convenience Scan Data).

The overall volume performance translated to the Group's revenue increase of 14% (RM65 million). The Group's operating expenses were slightly higher by 10% (RM5 million) compared to the previous quarter. This was largely due to the on-going restructuring expenses of RM7 million incurred in the current quarter. Profit from operations was RM83 million in the second quarter versus RM71 million for the immediate preceding quarter, registering an increase of 16% (RM12 million). The increase in profit from operations was mainly driven by higher Domestic volume as a result of the ramp up of sales and distribution activities post the MCO to capture the market demand upon the resumption of business activities. This positive result was partially offset by lower Duty-Free sales as Regional and International travel restrictions were still in place during the second quarter.

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B8. REVIEW OF PERFORMANCE YEAR-TO-DATE 2020 VS YEAR-TO-DATE 2019

Year-to-date performance was in line with the Group's expectation. Despite strong quarter 2 results, the year-to-date comparator continues to show a declining trend. Profit from operations was RM154 million year-to-date versus RM227 million in the same period of last year, representing a decline of RM73 million (32%). The decline was mainly attributed to legal market contraction as a result of illicit cigarette volume and illicit nicotine vaping growth, market downtrading and lower Duty-Free sales as a result of the Regional and International travel restrictions due to COVID-19 pandemic and the MCO. This was partially offset by the benefit of cost rationalisation that the Group has undertaken.

Total legal industry volume declined by 6% when compared to same period of last year, as black market volume continues to be at 69% of the total nicotine market with growth driven by illicit vaping. The results from enforcement actions though improved were insufficient to drive a recovery in legal cigarette volumes.

The combination of legal market contraction with reduced Duty-Free sales and downtrading led to a decline of 18% in the Group's volume (decline of 13% excluding COVID-19 Duty-Free impact) and a decline of 19% in the Group's revenue (RM234 million) when compared to the same period of last year.

The Group embarked on a journey to achieve operational efficiencies towards the end of 2019 which has led to a streamlined cost base for 2020 to deliver long-term sustainability goals. The operating expenses as compared to the same period of last year was lower by 31% excluding restructuring expenses (RM43 million).

B9. CURRENT YEAR PROSPECTS

Overall the Group's Domestic volume remains resilient coming out of the MCO. However, the COVID-19 pandemic continues to impact the Group's Duty-Free volume as the Regional and International travel restrictions are still being imposed. Consumer affordability continues to be under pressure, which has led to downtrading in the legal market. Given the economic slowdown coupled with the expected subsidies and loan moratorium removal later in the year, consumer affordability will be further stretched. Taking this into account, the Group has launched the new "KYO" brand extending our portfolio in the Value for Money (VFM) segment to capture fair share of down traders.

The sustainability of the legal tobacco industry continues to be challenged by a persistently high level of illegal cigarette trade and rapid growth of illegal nicotine vaping. The need to regulate the tobacco and nicotine industry is critical for the sustainability of legal tobacco players. The Group's future growth will be very much dependent on the recovery of the legal cigarette market, a regulated nicotine landscape, sensible fiscal policies and a resolution to the affordability issues affecting consumers.

The Group is encouraged by the second quarter results which sets up positively for continued strong performance for the remainder of the year, and will continue to streamline its cost base, investing for sustainable long-term growth and complete the restructuring exercise in 2020 to deliver a leaner and stronger organisation.

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B10. EARNINGS PER SHARE

	3 months ended		Financial period ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
Basic earnings per share				
Profit for the financial period (RM'000)	<u>54,611</u>	<u>76,265</u>	<u>105,377</u>	<u>164,865</u>
Weighted average number of ordinary shares in issue ('000)	285,530	285,530	285,530	285,530
Basic earnings per share (sen)	<u>19</u>	<u>27</u>	<u>37</u>	<u>58</u>

The Group does not have in issue any financial instrument or other contract that may entitle its holders to ordinary shares and therefore, diluted earnings per share is not disclosed.

B11. DIVIDENDS

Dividends paid or declared in respect of the quarter and financial period ended 30 June are as follows:

	Sen per share	Total amount RM'000
2020		
Fourth interim dividend 2019	33.0	94,225
First interim dividend 2020	<u>17.0</u>	<u>48,540</u>
Total amount	<u>50.0</u>	<u>142,765</u>
2019		
Fourth interim dividend 2018	47.0	134,199
First interim dividend 2019	<u>30.0</u>	<u>85,659</u>
Total amount	<u>77.0</u>	<u>219,858</u>

The Board of Directors declared a second interim ordinary dividend of 18.0 sen per ordinary share (tax exempted under single-tier tax system) at the Board of Directors' meeting on 23 July 2020 amounting to RM51,395,400 in respect of the financial year ending 31 December 2020 which will be paid on 19 August 2020 to shareholders registered in the Company's Register of Members at the close of business on 7 August 2020. This equates to a 94% payout on Q2 2020 earnings per share.

**PART B: EXPLANATORY NOTES PURSUANT TO MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B11. DIVIDENDS (CONTINUED)

A Depositor shall qualify for entitlement only in respect of:

- (a) Securities transferred to the Depositor's Securities Account before 4.30 p.m. on 7 August 2020, in respect of ordinary transfers; and
- (b) Securities bought on Bursa Malaysia Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Berhad.

B12. AUTHORISED FOR ISSUE

The quarterly report was authorised for issue by the Board in accordance with a resolution of the Directors on 23 July 2020.