



British American Tobacco (Malaysia) Berhad (4372-M)



## REDEFINING LEADERSHIP



2009 ANNUAL REPORT

British American Tobacco (Malaysia) Berhad (4372-M)  
Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor, Malaysia  
Tel: +60 (3)7956 6899/7491 7100 Fax: +60 (3)7955 8416  
[www.batmalaysia.com](http://www.batmalaysia.com)

2009 Annual Report



LEADERSHIP

# LEA DER SHIP

By redefining our quantitative and qualitative goals through inspirational leadership, we strengthened our premier position.



G R O W T H

GRO  
WTH

By redefining our portfolio of Global Drive Brands coupled with an enhanced trade marketing and distribution model, we firmly consolidated our leadership in volume and in share value.



PRODUCTIVITY

# PRO DUCT IVITY

By redefining productivity breakthrough targets, we achieved progressive improvements through effective and efficient deployment of resources to ensure continued leadership in quality, delivery and cost effectiveness.



RESPONSIBILITY

RESP  
ONSI  
BILITY

By redefining responsible leadership continuously in our business, we operate taking into consideration the balance between our commercial objectives and stakeholders' reasonable expectations.



By redefining the benchmark for a high performing organisation, our leadership position is fortified through our talented people from diverse cultures.

# WINNING ORGANISATION



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## **REDEFINING LEADERSHIP**

The year 2009 has been a challenging year for the industry. British American Tobacco Malaysia has however remained focused on strengthening its premier leadership position both quantitatively and qualitatively. This Annual Report cover illustrates our commitment to grow a sustainable yet responsible business guided by our strategic pillars of Growth, Productivity, Responsibility and Winning Organisation. It is a narration of our journey in 2009, where milestones were achieved by functioning in synergy to deliver solid performance, thus, redefining our leadership not merely as a market leader in the industry but through all aspects of our business.

# 49<sup>th</sup>

Annual General Meeting (AGM) of British American Tobacco (Malaysia) Berhad will be held at **Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan** on **Tuesday, 20 April 2010 at 11.00 a.m.**

AGM Helpdesk: Ms. Lee Kar Ling  
Tel: +60 (3)7491 7313 Fax: +60 (3)7491 3772  
Email: Lee\_Kar\_Ling@bat.com



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# our vision

We share British American Tobacco p.l.c.'s vision to achieve leadership of the global tobacco industry in order to create long term shareholder value. Leadership is not an end in itself. A company that leads its industry also, and is seen to have a sustainable business, will be valued more highly.

We define leadership in both a quantitative and qualitative sense. Quantitatively, we seek volume leadership among our competitors and in the longer term, value leadership.

However the hard, quantitative measures do not in

themselves address all the things we must do as a company. We take a long term view, focusing on the quality of our business and how we work. As a result, qualitatively, we seek to be recognised as an industry leader and to be the partner of first choice for our valued stakeholders. We will do this by continuing to demonstrate that we are a responsible tobacco company, with a sustainable business, and outstanding people.

The strategy to deliver our vision is based on four elements around which all our efforts revolve – Growth, Productivity, Responsibility and Winning Organisation.

## HIGHLIGHTS OF THE YEAR

		<b>Year ended 31.12.09 RM million</b>	Year ended 31.12.08 RM million	<b>Increase/ (Decrease) %</b>
Revenue		<b>3,923</b>	4,135	(5)
Profit Before Taxation		<b>1,005</b>	1,081	(7)
Net Profit for the Financial Year		<b>747</b>	812	(8)
Shareholders' Funds		<b>439</b>	406	8
Net Returns on Shareholders' Funds	(%)	<b>170.0</b>	199.7	(15)
Net Earnings Per Share	(sen)	<b>261.5</b>	284.3	(8)
Net Interim and Final Dividend Per Share	(sen)	<b>236.0</b>	265.0	(11)

- Global Drive Brands reached highest ever reading in 2009 with 54.6% of the market
- DUNHILL continued to demonstrate impressive growth in market share to 43.6%
- KENT grew market share to 2.7%
- Successful launch of DUNHILL Reloc pack for further growth
- Enhanced Trade Marketing and Distribution capabilities with more distribution points being consolidated and further improvement in network effectiveness and efficiency processes
- Substantial savings of RM41.5 million achieved for 2009



# dear shareholders,

On behalf of the Board of Directors of British American Tobacco Malaysia, it is my pleasure to present the Annual Report for the financial year ended 31 December 2009.

## **chairman's** review

Tan Sri Abu Talib bin Othman

## financial performance

The Group achieved a profit before tax of RM1,005.3 million for the year representing a decrease of 7% over the figure for the previous year. Revenue for the year decreased by 5.1% to RM3,923.4 million. The overall performance of the Group's business has been commendable, given the economic situation of the country and the rapid growth of illicit trade. The Group will continue to undertake measures to improve operating efficiencies of its business and meet increased competitive pressure in the industry.

## dividend

The Board has recommended a final net dividend of 62 sen per share which with the interim dividend already paid of 174 sen net per share, making the total dividend for the year 236 sen net per share.

The total dividend to be paid out for the financial year ended 31 December 2009 will be RM673.9 million.

## 2009 market landscape

The year under review was by far one of the most challenging for the Group in view of the economic situation of the country. Consumer spending power continued to be affected by the economic downturn. We saw the trend of down trading to cheaper alternatives in the form of exceptionally low priced cigarettes, and illegal cigarettes which has reached an all time high of 38.7% of the total cigarette market in the country. The total volume of the Group contracted by 13.8%.

Despite the down trading pressure, I am very happy to be able to report that the Group successfully grew its Global Drive Brands market share by 2.6 percentage points to 54.6% in 2009, driven primarily by the strong performance of DUNHILL and the relaunch of KENT. DUNHILL showed great strength and grew by 1.9 percentage points versus the same period last year, while KENT share grew by 1.4 percentage points to 2.7%.

The Group will continue to work closely with the relevant authorities in addressing the challenges faced by the tobacco industry, particularly illicit cigarette trade.

## leading in responsibility for sustainable growth

As a progressive and responsible corporate citizen, the Group is committed to strengthen corporate responsibility conduct towards the community with which we do business and deliver added value to our stakeholders – shareholders, employees, customers, investors, distributors and business partners. The Group continued to demonstrate high level of corporate governance standards throughout its strategies and processes in addition to ensuring that growth and profitability are not attained at the expense of corporate responsibility.

Within the pillars of workplace, community, environment and marketplace, we have continued to promote volunteerism spirit among employees with our Employee Volunteer Programme which for the first time included family members of employees in addition to adding focus towards raising awareness on environmental issues. Many other initiatives were also carried out such as the paper conservation project, working closely with our stakeholders in illicit trade campaigns and launching a biodiversity learning programme for our employees.

We are pleased to note that our corporate responsibility efforts have received external recognition. Among such recognitions are Distinction Award in the Malaysian Corporate Governance Index 2009 for practising the highest level of corporate governance standards, overall winner of the KPMG/The Edge Shareholder Value Awards 2008 for the seventh consecutive year, as well as being the sole Malaysian company listed in the Asian Sustainability Rating list of top 20 companies in Asia Pacific.

I wish to congratulate the Managing Director and his team on these achievements.

### outlook for 2010

While there appears to be signs that the country is on the path of economic recovery, the uncertain condition arising from the implementation of the ASEAN Free Trade Area, the rapid growth of illicit cigarette trade and the removal of packs of less than 20 sticks mean that the year ahead will be a challenging one for the Group. Nevertheless, with the strong foundation that we have created for the business through our strong and balanced portfolio of brands and marketing distribution capabilities, our Growth and Productivity initiatives together with our Responsibility and Winning Organisation strategies and the talent in the Group, I am confident that we can successfully meet the challenges ahead.

### key leadership changes

I bid a warm welcome to Mr. William Toh as the new Managing Director of British American Tobacco (Malaysia) Berhad with effect from 1 October 2009.

Mr. Toh, the first Malaysian to be appointed as Managing Director of the Company has had a career with British American Tobacco spanning almost three decades, holding various leadership roles in several countries in Asia. With his vast experience and in-depth knowledge in the cigarette industry, I am confident he will be able to further enhance the Group's performance and I look forward to working closely with him.

Mr. Jack Bowles has left the Company to take on a British American Tobacco p.l.c. management board position in Western Europe. On behalf of the Company I would like to express our thanks and appreciation for his leadership and contribution to the Company and also to congratulate him for his promotion.

### appreciation

On behalf of the Board, I wish to express our appreciation to the management and staff for their dedication and commitment in the performance of their duties during the year and to our shareholders, customers, distributors, investors, business partners for their strong and continued support. I wish also to record my thanks to my fellow Directors for their advice and support.



**CHAIRMAN**

Tan Sri Abu Talib bin Othman

“We are determined to deliver our strategy to strengthen leadership position both qualitative and quantitative and meeting the expectations of our stakeholders in a responsible manner to build a long term sustainable business.”

### redefining leadership

2009 has been a challenging year both for the industry and British American Tobacco Malaysia as a result of the economic downturn. The economic uncertainty had impacted market confidence and eroded consumer purchasing power, leading to consumer down trading to cheaper products. This phenomenon is evident from the decline in the overall industry volume, as measured by Confederation of Malaysian Tobacco Manufacturers (CMTM), by 11.2% versus the year before and the more than 50% growth in illicit volumes (up by 13 percentage points versus 2008 full year average) to an alarming 38.7% share of market (based on the survey results commissioned by CMTM).

Under the backdrop of a challenging market environment, we are determined to deliver our strategy to strengthen leadership position both qualitative and quantitative and meeting the expectations of our stakeholders in a responsible manner to build a long term sustainable business.

### redefining growth

In 2009, the industry experienced a significant drop in volumes due to reasons mentioned above. Against these adverse market conditions, British American Tobacco Malaysia

registered a higher than industry decline in volume of 13.8% mainly driven by full year impact of brand migrations activities and the unfavourable impact of higher stick price on our pack of 25s due to compliance with a price directive issued by the relevant authority. Our 4th quarter results however, did register a recovery trend in corporate share, registering the highest share for the year.



## managing director's review

William Toh Ah Wah





Our Global Drive Brands (GDBs) performed well with a strong growth of 2.6 percentage points to 54.6% share of market in 2009, driven mainly by our premium portfolio – DUNHILL and KENT with 1.9 percentage points and 1.4 percentage points share growth respectively. Our share of the premium segment also grew by 0.4 percentage points to 73.6% share of segment, a healthy performance in a down trading environment.

In the last quarter of 2009, DUNHILL introduced its new pack design with a resealable feature called Reloc. With this innovative feature, the brand is poised to continue its growth momentum and is expected to strengthen its premium segment position further.

Since KENT's re-launch in 2008, its market share has steadily increased to 2.7% mainly in the Premium Lights and Menthol segments driven predominantly by brand migration. Furthermore, a new innovative super-slim product (KENT Nanotek) was also launched in the year which further reinforced KENT's position in the Premium Lights segment.

Despite intensive competition within the value for money and exceptionally low price segments, PALL MALL remained focussed on driving better value, offering choice of quality and affordability. However, PALL MALL did register a marginal decline of 0.5% point to 7.9% share of total market. In the 2nd quarter of 2009, PALL MALL also launched its 18s pack size to enable it to compete more favourably in this segment. It remains the only value for money brand that offers consumers all available pack sizes.

In our pursuit for excellence in delivery, our Trade Marketing and Distribution has consolidated and expanded its distribution networks to cover more distribution points. In addition, further improvements were made to ensure network effectiveness and efficiency. We also invested in skill enhancement of our sales staff and implemented robust development plans to enable them to compete more effectively in the dynamic market environment.

### redefining productivity

Our Company continued to deliver yet another year of stretched productivity savings of RM41.5 million through various productivity initiatives and cost saving measures.

2009 was a year where we continued to focus on operational excellence throughout our supply chain and improving on the delivery and quality of our products in the most cost efficient and effective manner.

After three successful productivity improvement programmes in supply chain, we launched the fourth programme (Breakthrough 4) in 2009 to drive further supply chain efficiencies, complexity reduction and standardisation. We have also successfully commissioned a number of innovative manufacturing machines to support the launch of the new DUNHILL Reloc pack in the 4th quarter.

Our Continuous Improvement – Kaizen (CI-Kaizen) programme continued to make inroads into cultivating a CI-Kaizen culture of positive mindset for our employees to deliver continuous improvement. A new online CI-Kaizen portal was launched to effectively track and measure CI-Kaizen ideas and initiatives from our employees.

### redefining responsibility

Organisations today are operating under greater regulation and scrutiny than before. We recognise that our industry is more controversial than most and as such we see that it is of utmost importance that we demonstrate responsibility in everything we do.

Hence, in this report, you will read about our Company's efforts in continuing to operate its business responsibly through various initiatives and best practices from community, workplace, and marketplace to environmental efforts.

Our efforts and approach in corporate social investment is based on our strong belief in contributing to the communities we operate in. I am pleased to report that we have made good progress in this field.

In 2009, the British American Tobacco Malaysia Foundation continued to deliver on its mission of providing higher education opportunities for our valued business partners and employees through financial assistance to deserving students to pursue higher education in local universities. To demonstrate our commitment in supporting education opportunities that has spanned more than 25 years, the Foundation also increased its scholarship value this year in spite of economically challenging times by awarding a total of RM307,000 to deserving students to pursue their higher education.

Earlier in the year, the Company also helped to replant the crops of tobacco farmers destroyed by floods at a cost of RM10 million. We have also held programmes to inculcate awareness of biodiversity amongst our employees and embarked on numerous conservation projects in the Company.

The Company and our employees are pleased and encouraged by the numerous external recognitions awarded to the Company for our corporate responsibility efforts and good corporate governance practices. This is a testament of our commitment to building a sustainable business by illustrating our strong commitment to corporate responsibility initiatives and transparency in governance.

### **redefining winning organisation**

To ensure that our strategy is executed effectively and to meet our shareholders' and stakeholders' expectations, it is essential that we have the right people and the right working environment. We have placed strong emphasis on empowering our people, promoting entrepreneurship and innovation whilst creating a great place to work. We are committed to continuing our journey towards our vision to be the Best Employer in the market, which has also gained us external recognition.

We implemented several initiatives in 2009 to build on previous years' success to attract the right talent, train and develop our employees and ensure the best work environment.

The Company has redesigned and subsequently communicated our new employer value proposition now known as "Bring Your Difference" to meet our strategy of obtaining a diverse and high potential workforce.

We have also actively responded to our employees engagement survey by rolling out several key initiatives this year to address issues highlighted from the said survey.

### **moving forward**

We anticipate further challenges in the operating environment in 2010 with various regulatory changes taking place and the ongoing battle against the high level of illicit cigarettes.

However, despite operating in such increasingly competitive landscape, we view this adversity as an opportunity and will continue to invest to strengthen our portfolio of brands, consolidate our market share position, improve on our market competitiveness and develop our people.

I am confident that the Company is well positioned to address these challenges and we will continue to enhance our market leadership, deliver sustainable profit, thus, redefining our leadership in the Malaysian tobacco industry.

I wish to thank our Board for their leadership and guidance and our employees for their dedication and contribution in 2009.



**MANAGING DIRECTOR**  
William Toh Ah Wah





“2009 was definitely a challenging year, but despite the global economic uncertainty and record levels of illicit, we have managed to strengthen our brand portfolio and delivered solid financial performance.”

2009 has been a challenging year for the world economy and the tobacco industry. The tobacco industry faced new regulatory challenges in the form of pictorial health warnings and descriptor ban. In addition, the impact of the global financial crisis has seen Malaysia's GDP contract while unemployment and inflation have risen, eroding consumer purchasing power and driving the growth of illicit trade. The sharp increase in illicit incidence to 38.7% has led to a decline of total industry volumes by 11.2% in 2009. British American Tobacco Malaysia's volumes declined more than the industry, due to the full year impact of brand migration activities that took place in 2008 and the unfavourable impact of stick price parity on our packs of 25s. As a result, turnover and profit after tax for the year declined by 5.1% and 8.0% respectively when compared to 2008.

Despite the challenging conditions, British American Tobacco Malaysia maintained its market leadership in 2009 through its continued investments in its Global Drive Brands (GDBs) and trade marketing and distribution capabilities. We hold 59.7% of the addressable legal market and our GDB share is now 54.6% of the market, the highest ever reading. One of our major investments for 2009 has been the launch of the DUNHILL Reloc pack in December 2009, requiring almost RM90 million investment in new machineries. The breakthrough innovative resealable feature of the new DUNHILL Reloc pack is a first in the Malaysian market, and is designed to help maintain the freshness of our product.

We continue to drive productivity via our “Breakthrough” programme, which generated over RM40 million worth of savings in 2009. Our continuous improvement culture has enabled us to invest in various strategic initiatives – focusing on GDB growth, driving productivity gains, contributing to corporate responsibility initiatives and creating a winning organisation to work in. British American Tobacco Malaysia is well prepared for future challenges, and will strive to continue delivering and maximising long term shareholder value.



## finance director's review

Stephen James Rush

**financial performance in 2009****Consolidated Income Statement**

	12 months 2009 RM million	12 months 2008 RM million	Increase/ (Decrease) %
Revenue	3,923	4,135	(5.1)
Cost of sales	(2,379)	(2,465)	(3.5)
Gross profit	1,544	1,670	(7.5)
Other operating income	6	13	(55.6)
Operation expenses	(517)	(573)	(9.8)
Profit from operations	1,033	1,109	(6.9)
Finance cost	(28)	(28)	(1.1)
Profit from ordinary activities before taxation	1,005	1,081	(7.0)
Taxation	(259)	(269)	(4.1)
Net profit for the financial year	747	812	(8.0)
Net earnings per share – basic and diluted (sen)	261.5	284.3	(8.0)
Net interim and final dividend per share (sen)	236.0	265.0	(10.9)

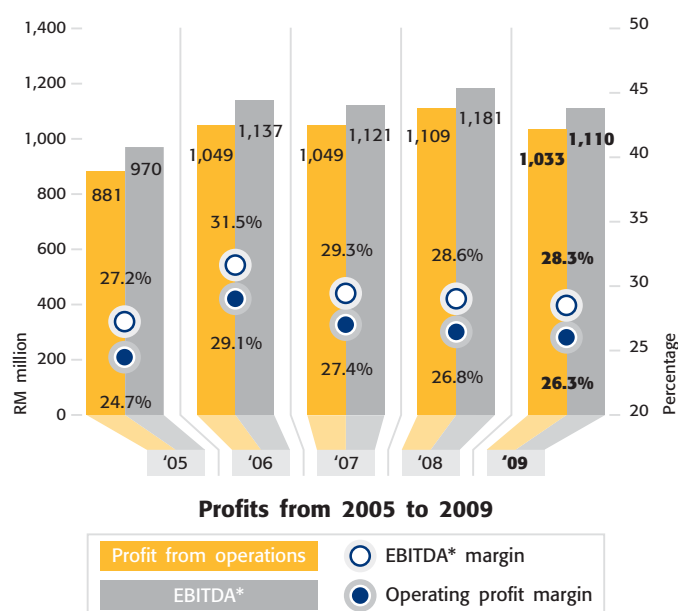
	%	%	pp
Operating profit margin	26.3	26.8	(0.5)
Profit after tax/Revenue	19.0	19.6	(0.6)

The financial results reflect the challenges the Group faced in 2009. Revenue declined by 5.1% as higher net pricing and better sales mix were not enough to offset lower volumes. Declining volumes resulted in underutilisation of production capacity and our gross profits subsequently declined by 7.5%.

To compensate for revenue trends, significant efforts were taken to manage the Group's controllable cost base. Overhead costs and discretionary spend across the Group were reviewed and spending was more focussed. As a result, operating expenses decreased 9.8% and the 2009 operating margin was close to the margin in 2008. This was partially offset by lower interest income from lower sales receipts and our profit from operations decreased by 6.9%. The Group also undertook a right sizing exercise and recognised machine impairments in 2009 to optimise its production capacity and reduce its operating cost base, as well as preparing for future regulatory changes. If we exclude these one-off items, profit from operations would have only reduced by 5.1%, almost in line with the decrease in revenue.

In August 2009, the Group also refinanced RM250 million worth of medium term notes (MTNs) at a lower financing cost. After taking into consideration the timing of when the new MTNs were refinanced and existing MTNs matured, the savings in financing cost in 2009 are not immediately apparent, and 2009 interest expense was almost similar to 2008, resulting in a pre-tax profit reduction of 7% over 2008.

The Group's effective tax rate in 2009 was 25.7%, higher than the statutory tax rate of 25%. This is mainly due to the non-deductibility of interest expense following the move to the single tier tax system. As a result, we saw an 8% reduction in profit after tax and earnings per share in 2009.



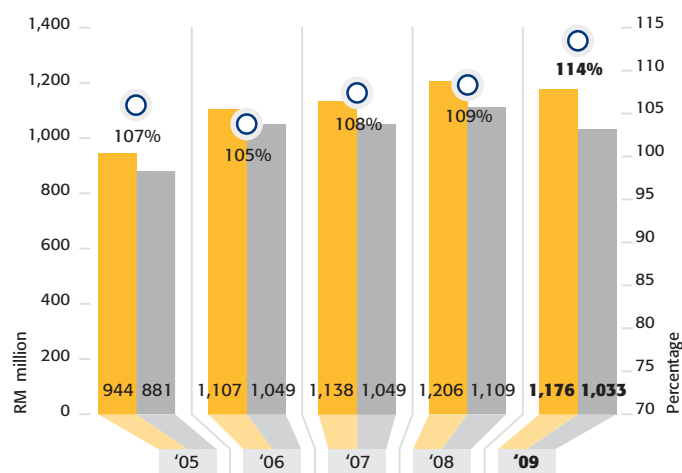
\* EBITDA is 'Profit from operations before interest, depreciation, amortisation and exceptional items'



**cash conversion up by 5pp in 2009****Consolidated Cash Flow Statement**

	12 months 2009 RM million	12 months 2008 RM million	Favourable/ (Adverse) %
Profit from operations	1,033	1,109	(7%)
Adjustments for:			
Interest income	(5)	(8)	(38%)
Defined benefit plan charge	1	1	30%
Provision for litigation	6	—	100%
Property, plant, equipment and computer software:			
– Depreciation and amortisation	81	80	1%
– Loss on disposal	1	1	0%
– Impairment	28	21	38%
Allowance for doubtful debts	3	2	99%
Bad debts written off	3	—	100%
Inventories written off	3	2	50%
Changes in working capital	22	(2)	1018%
Cash from operations	1,176	1,206	(2%)
Income taxes paid	(251)	(251)	0%
Net capital expenditure	(79)	(95)	17%
Net repayment of MTN	—	(100)	100%
Net finance costs	(23)	(20)	(15%)
Dividends paid	(714)	(751)	5%
Increase/(Decrease) in cash and cash equivalents	109	(11)	1092%

The Group's cash flow from operations was over RM1.1 billion, representing 114% of profit from operations, up from 109% in 2008. This is largely attributable to better working capital management. When compared with 2008, operating cash flow was impacted by profits and volumes decline, registering a 2% reduction. In addition, we saw a decrease in net capital expenditure, largely due to final proceeds received from the sale of our property in Sungai Besi. After funding tax, capital expenditure and dividend payments, our ending cash and cash equivalents was at a healthy RM169 million.

**Cash flow management from 2005 to 2009**

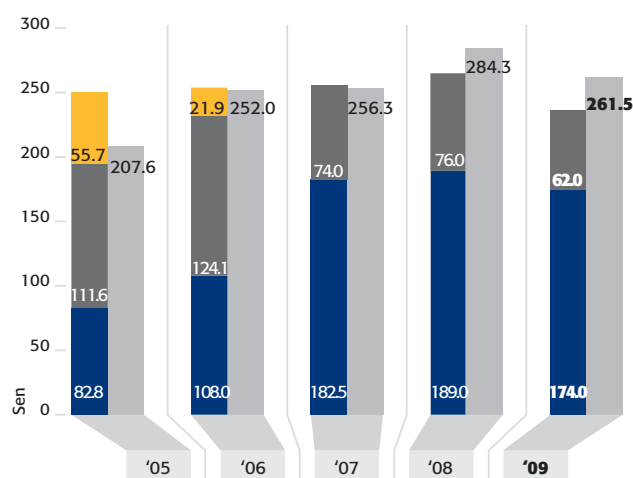
Cash flow from operations (CF)
Profit from operations (OP)
○ Cash conversion (CF/OP)

### commitment to high dividend payout

The Group remains committed to pay dividends of at least 90% of net profit by distributing excess cash over operating requirements back to shareholders. Subject to shareholders' approval at the upcoming Annual General Meeting, the Board of Directors has proposed a total net dividend payout of 236 sen per share for 2009, which consists of:

- a proposed net final dividend of 62 sen per share
- 2nd interim net dividend of 61 sen per share
- 1st interim net dividend of 113 sen per share

This represents a payout of 90.2% of the Group's profit attributable to shareholders, and is in line with our high dividend payout policy.



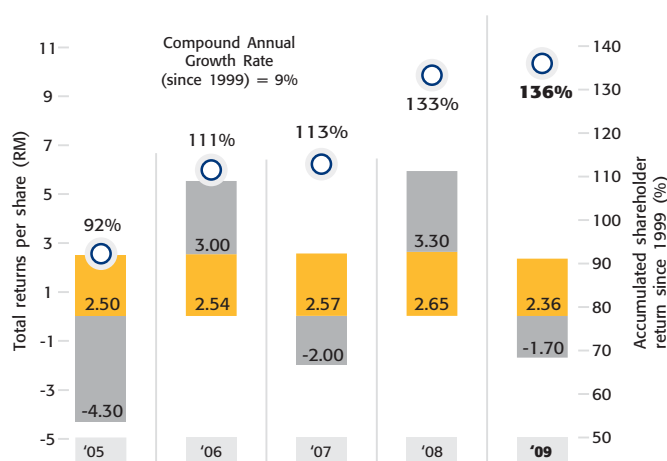
Earnings & dividends per share from 2005 to 2009

Net interim dividend per share	Net special dividend per share
Net final dividend per share	Net earnings per share

### sustainable shareholders' returns

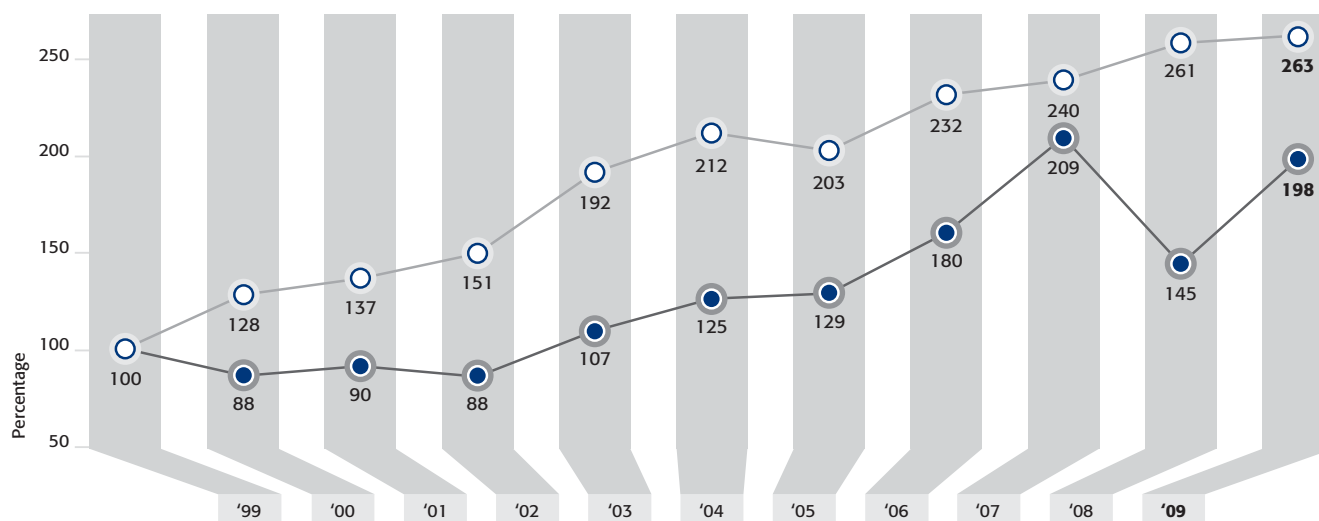
Despite the challenges faced by the Group, shareholders have still made a gain of 66 sen per share in 2009. This was representative of net dividends paid and proposed for the year, partially offset by a slight 3.8% drop in share price. With a long term record of stable share price and high dividend payout, British American Tobacco Malaysia's shareholders have made a solid 9% per annum on a compounded basis over the past ten years. Furthermore, British American Tobacco Malaysia has consistently outperformed the FTSE Bursa Malaysia Kuala Lumpur Composite Index for the past ten years, a strong testament of our market leadership and sound business strategies.

In times of falling interest rates, volatile housing and equity markets, British American Tobacco Malaysia still proves to be a sound investment, and has consistently met its promise to deliver sustainable long term shareholder value.



Total shareholders' return from 2005 to 2009

Capital gain / loss	Total shareholder return (since 1999)
Net dividends	



**British American Tobacco Malaysia total shareholders' return compared against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 1999 to 2009**

—○— British American Tobacco Malaysia —●— FTSE Bursa Malaysia KLCI

### efficient capital structure

The Group's Treasury function focuses on managing financial risks through proactive management of cash flow, interest rates and currency exposures. The Group had two medium term notes (MTNs) maturing in 2009, RM100 million in May, and RM150 million in November. In August 2009, the Group successfully issued a five year RM250 million MTN, which was used for working capital requirements and the repayment of the RM150 million MTN in November 2009. The weighted average interest rate is 4.22% (compared with 4.31% before refinancing), and represents an annualised interest expense savings of RM0.6 million per annum.

In June 2009, Ratings Agency Malaysia reaffirmed the Group's short and long term ratings of P1 and AAA respectively, for the CPs/MTNs. This is a continued validation of the Group's strong corporate position and excellent cash generation and management.

### continuous commitment to maximising long term shareholder value

Going into 2010, the main concern for the Group will still be the unprecedented high levels of illicit trade and the impending loss of pack sizes less than 20s by June 2010. Addressing these concerns in the face of a fragile recovering economy will be an added challenge.

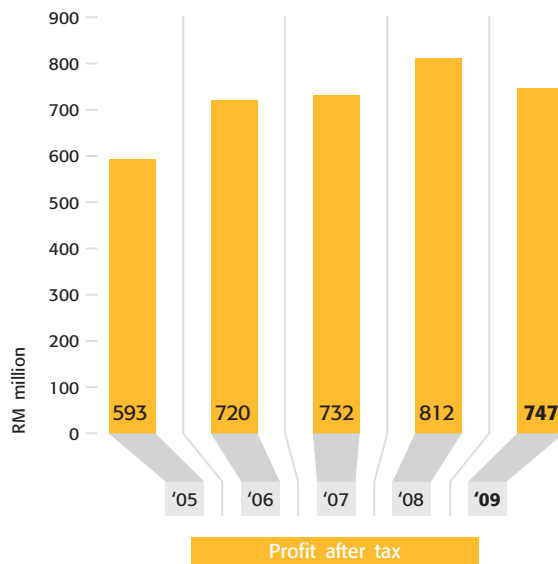
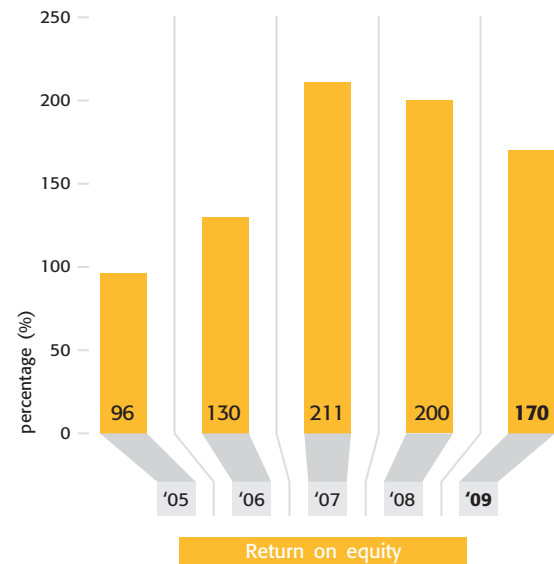
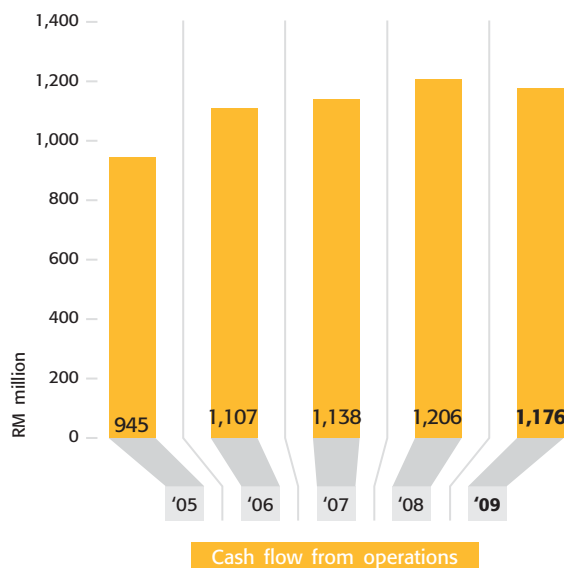
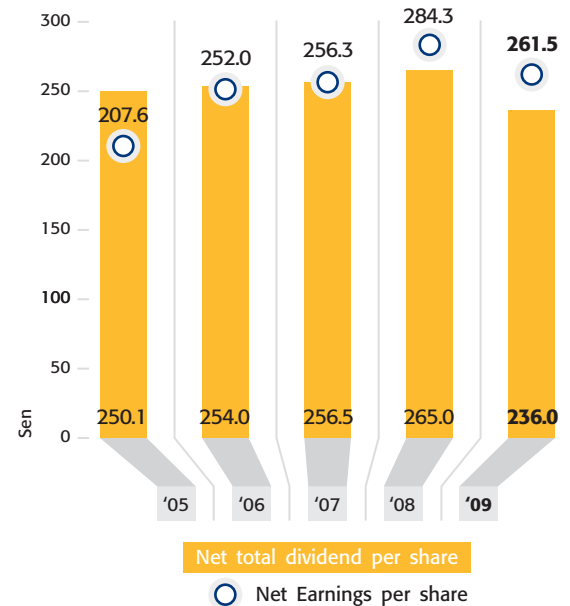
However, the Group strongly believes that its strategy is sound, and the balanced pillars of Growth, Productivity, Responsibility and Winning Organisation have placed it in a strong position to address the challenges ahead. We remain fully committed to protecting and enhancing our market leadership, and firmly believe that we will be able to continue delivering superior long term shareholder value.

**FINANCE DIRECTOR**  
Stephen James Rush

	<b>Financial year from 1.1.09 to 31.12.09 RM'000</b>	Financial year from 1.1.08 to 31.12.08* RM'000	Financial year from 1.1.07 to 31.12.07* RM'000	Financial year from 1.1.06 to 31.12.06* RM'000	Financial year from 1.1.05 to 31.12.05* RM'000
Revenue	<b>3,923,421</b>	4,135,220	3,830,869	3,612,482	3,564,215
Profit from operations	<b>1,033,135</b>	1,109,297	1,049,416	1,049,414	881,440
Finance cost	<b>(27,823)</b>	(28,131)	(46,515)	(47,467)	(48,471)
Profit before taxation	<b>1,005,312</b>	1,081,166	1,002,901	1,001,947	832,969
Net profit for the financial year	<b>746,784</b>	811,683	731,931	719,678	592,802
Net annual dividends	<b>673,851</b>	756,655	732,384	662,715	555,070
Net special dividends	—	—	—	62,531	158,983
Share capital	<b>142,765</b>	142,765	142,765	142,765	142,765
Shareholders' funds	<b>439,285</b>	406,479	346,587	552,752	619,403
Property, plant and equipment	<b>431,117</b>	438,624	439,959	478,688	517,550
Investment property	<b>1,654</b>	—	—	20,010	44,771
Leasehold land	<b>19,952</b>	20,455	20,826	22,600	22,995
Computer software	<b>6,550</b>	15,232	21,091	14,100	616
Goodwill	<b>411,618</b>	411,618	411,618	411,618	411,618
Deferred tax assets	<b>19,295</b>	4,978	4,978	4,020	3,300
Current assets	<b>551,944</b>	596,405	548,536	669,175	718,142
Total assets	<b>1,442,130</b>	1,487,312	1,447,008	1,620,211	1,718,992
Non current liabilities	<b>702,795</b>	448,584	712,892	309,762	753,712
Current liabilities	<b>300,050</b>	632,249	387,529	757,697	345,877
Total liabilities	<b>1,002,845</b>	1,080,833	1,100,421	1,067,459	1,099,589
Net earnings per share (sen)	<b>261.5</b>	284.3	256.3	252.0	207.6
Net dividend per share (sen)	<b>236.0</b>	265.0	256.5	254.0	250.1
Net returns on shareholders' funds (%)	<b>170.0</b>	199.7	211.2	130.2	95.7
Net asset backing per share (RM)	<b>1.54</b>	1.42	1.21	1.94	2.17
Number of employees	<b>1,656</b>	1,454	1,326	1,044	1,040

\* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses of defined benefit plan detailed in the Summary of Significant Accounting Policies.

## five year financial highlights

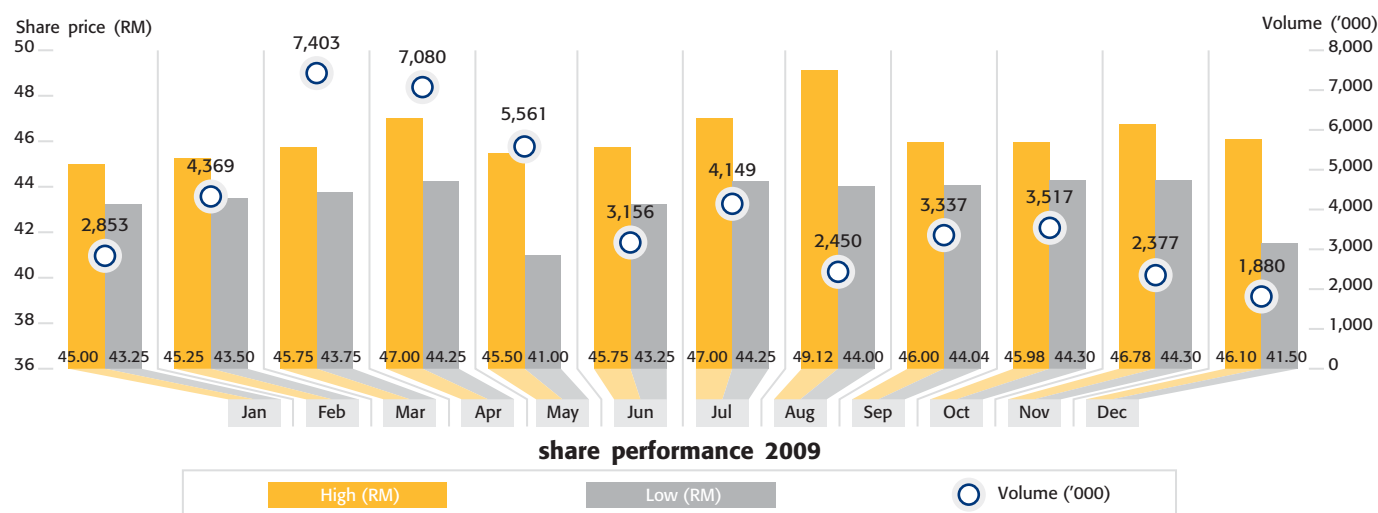
**consistent financial performance****outstanding shareholder returns****strong cash flow from operations****high dividend payout**

# five year group performance

British American Tobacco Malaysia continued its growth momentum and charted another year of strong financial performance, reaffirming its unwavering commitment to maximise and deliver long term shareholder value.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
High (RM)	45.00	45.25	45.75	47.00	45.50	45.75	47.00	49.12	46.00	45.98	46.78	46.10
Low (RM)	43.25	43.50	43.75	44.25	41.00	43.25	44.25	44.00	44.04	44.30	44.30	41.50
Volume ('000)	2,853	4,369	7,403	7,080	5,561	3,156	4,149	2,450	3,337	3,517	2,377	1,880

Source: Bloomberg



## ANNOUNCEMENT OF RESULTS

Unaudited consolidated results for the 1st quarter ended 31 March 2009

*Thursday, 23 April 2009*

Unaudited consolidated results for the 2nd quarter and half-year ended 30 June 2009

*Thursday, 23 July 2009*

Unaudited consolidated results for the 3rd quarter ended 30 September 2009

*Thursday, 19 November 2009*

Audited consolidated results for the 4th quarter and year ended 31 December 2009

*Thursday, 11 February 2010*

## DIVIDENDS

First interim dividend of 113.00 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement *Friday, 24 July 2009*
- Date of entitlement *Thursday, 13 August 2009*
- Date of payment *Thursday, 20 August 2009*

Second interim dividend of 61.00 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement *Friday, 20 November 2009*
- Date of entitlement *Tuesday, 8 December 2009*
- Date of payment *Thursday, 17 December 2009*

Proposed net final dividend of 62.00 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement *Friday, 19 February 2010*
- Date of entitlement *Wednesday, 21 April 2010*
- Date of payment *Friday, 7 May 2010*

# share performance and financial calendar

## ANNUAL REPORT AND ANNUAL GENERAL MEETING

Date of notice of **49th Annual General Meeting** and date of issuance of the **2009 Annual Report**

**Thursday, 25 March 2010**

Date of **49th Annual General Meeting**

**Tuesday, 20 April 2010**

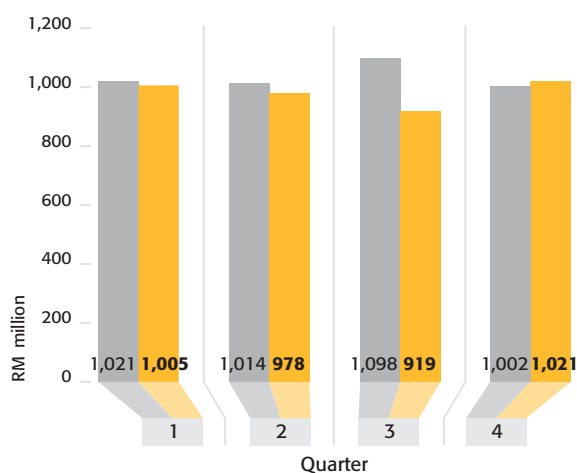


## 2009

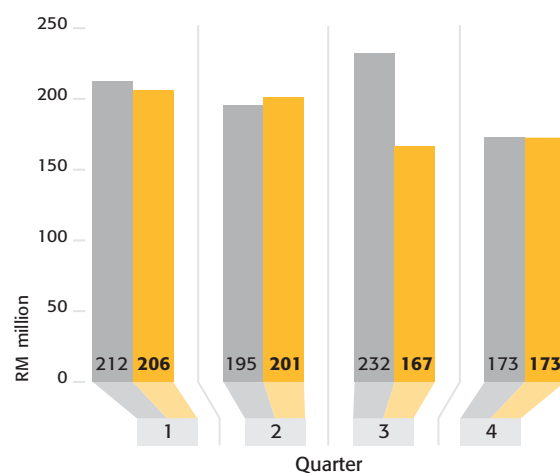
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Revenue	(RM million)	1,005	978	919	1,021	<b>3,923</b>
Operating profit	(RM million)	279	277	242	235	<b>1,033</b>
Finance cost	(RM million)	(7)	(7)	(7)	(7)	<b>(28)</b>
Profit before tax	(RM million)	272	270	235	228	<b>1,005</b>
Net profit	(RM million)	206	201	167	173	<b>747</b>
Earnings per share	(sen)	72.1	70.5	58.4	60.5	<b>262</b>
Net dividends per share	(sen)	—	113.0	61.0	62.0	<b>236</b>

## 2008

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Revenue	(RM million)	1,021	1,014	1,098	1,002	<b>4,135</b>
Operating profit	(RM million)	292	272	322	223	<b>1,109</b>
Finance cost	(RM million)	(7)	(7)	(7)	(7)	<b>(28)</b>
Profit before tax	(RM million)	285	265	315	216	<b>1,081</b>
Net profit	(RM million)	212	195	232	173	<b>812</b>
Earnings per share	(sen)	74.0	68.4	81.3	60.6	<b>284</b>
Net dividends per share	(sen)	—	113.0	76.0	76.0	<b>265</b>



Quarterly Revenue



Quarterly Net Profit



# quarterly performance

“British American Tobacco Malaysia was formed from the merger of Rothmans of Pall Mall (Malaysia) Berhad and Malaysian Tobacco Company Berhad on 3 November 1999. The merger pooled talent, experience and an unrivalled portfolio of highly successful international brands to create the country’s largest tobacco company.”

Today, British American Tobacco Malaysia is the clear market leader of the Malaysian cigarette industry, with approximately 60% market share, and ranks amongst the top 25 companies on Bursa Malaysia Securities Berhad in terms of market capitalisation. British American Tobacco Malaysia manufactures and markets high quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes well-established international names such as DUNHILL, KENT and PALL MALL.

We have a combined history of over 90 years in Malaysia going back to 1912. The wealth of expertise, coupled with leading edge technology and efficient systems and processes employed in all aspects of our business activities, position us well to meet the challenges of the future. We employ about 1,600 employees who are involved in the full spectrum of the tobacco industry, from leaf buying and processing to manufacturing, marketing and distribution. Our comprehensive distribution network spans the length and breadth of the country, ensuring that our brands are available everywhere in Malaysia.

We aim to maintain our leadership in the industry through increasing our share of the tobacco business and satisfying consumer demands better and more profitably than our competitors. In meeting these goals, we ensure that we market responsibly, and in a manner sensitive to our environment. For us, leadership goes beyond just market share, it has to be about qualitative leadership in our eyes, and in the eyes of our stakeholders.

While the tobacco industry is seen as controversial, it is also an important industry which has a role to play in contributing to the growth and development of the community in which it operates in. British American Tobacco Malaysia is committed to fulfilling that role.

## corporate profile

## What works for Generation Y

**H**ow do you attract and retain the best talent? For many organisations, the answer lies in understanding the needs and expectations of Generation Y. This generation, born between 1980 and 1995, is known for being tech-savvy, socially conscious, and seeking work-life balance. To attract and retain this talent, organisations need to focus on providing a supportive work environment, offering flexible work arrangements, and investing in their professional development. Understanding the unique characteristics of Generation Y is crucial for organisations looking to build a strong and sustainable workforce.

## BAT Q2 net profit rises on better product mix

**B**ritish American Tobacco (BAT) Malaysia has reported a strong second quarter performance, with net profit rising due to a better product mix. The company's focus on premium products and improved operational efficiency has contributed to the positive results. Management remains optimistic about the company's growth prospects for the remainder of the year.



## BAT: Higher tax will encourage illicit trade

**P**ERIN PUTER, British American Tobacco (BAT) Malaysia, has expressed concern that higher taxes on tobacco products could encourage illicit trade. He believes that such measures would drive consumers towards unregulated markets, undermining the company's efforts to maintain quality and safety standards. BAT is advocating for a balanced approach to taxation that does not compromise the integrity of the market.

## BAT maintains dividend payout despite higher taxes

**B**ritish American Tobacco (BAT) Malaysia has announced that it will maintain its dividend payout despite the impact of higher taxes. The company's strong financial performance and commitment to shareholder value have enabled it to do so. Management expects continued growth and profitability in the coming years.

## BAT to help flood-hit tobacco farmers

**P**ERIN PUTER, British American Tobacco (BAT) Malaysia, has pledged to help tobacco farmers in Kelantan region who were severely affected by flooding. BAT is providing financial assistance and technical support to help the farmers recover and resume their operations. The company is committed to supporting the local tobacco industry and ensuring the livelihoods of its growers.

## BAT hopes for moderate excise on cigarettes

**S**ALLA KUMAR, British American Tobacco (BAT) Malaysia, has expressed his hope for a moderate excise on cigarettes. He believes that excessive taxation could harm the industry and lead to unintended consequences. BAT is advocating for a fair and balanced tax system that supports the growth of the tobacco industry while addressing public health concerns.



## A helping hand

**B**ritish American Tobacco (BAT) Malaysia has provided a helping hand to the local community, particularly in the aftermath of natural disasters. The company has donated funds and resources to support relief efforts and assist those in need. BAT is committed to social responsibility and supporting the development of the communities it operates in.

## A great start

**T**he new year has started with a great start for British American Tobacco (BAT) Malaysia. The company has achieved significant milestones and is looking forward to a successful year ahead. Management is confident about the company's growth and the positive impact it will have on the local economy.

## KPMG: Shareholder value creation in Malaysia may fall

**K**PMG has reported that shareholder value creation in Malaysia may fall in the coming year. The firm's analysis indicates that various factors, including economic challenges and market volatility, could impact the performance of companies. However, KPMG remains optimistic about the long-term growth potential of the Malaysian market.

## Taste of management trainee scheme

**A** group of management trainees from British American Tobacco (BAT) Malaysia have shared their experiences and insights into the company's training program. The trainees have gained valuable knowledge and skills through their participation in the scheme, which is designed to develop future leaders within the organization. The program has been highly successful in preparing the trainees for their roles and responsibilities.

## BAT remains tops despite tough environment

**T**he market leader in the Malaysian tobacco industry, British American Tobacco (BAT) Malaysia, has maintained its top position despite a tough environment. The company's strong brand portfolio, innovative products, and efficient operations have enabled it to outperform its competitors. BAT remains committed to delivering value to its shareholders and stakeholders.

# British American Tobacco Malaysia in the news

We are committed to achieving excellence in all aspects of our conduct and achieving our business objectives in a responsible manner in accordance with high standards of transparency and accountability. In 2009, the Company received numerous recognition locally and internationally-setting the benchmark in the areas of corporate responsibility, shareholder value and corporate governance.

**Distinction Award for Malaysian Corporate Governance Index 2009 ①**

*Recognition for the Company's achievement in practising the highest level of corporate governance standards by Minority Shareholders Watchdog Group (MSWG).*

**Notable Achievement in Environmental Performance for Prime Minister's Hibiscus Award 2008/2009 ②**

*Recognition from Malaysia's premier environmental awards for the Company's environmental performance and best practices.*

**Industry Excellence Award under Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2009 ③**

*Recognition for the eighth consecutive year for the Company's excellence in annual reporting, demonstrating high standards of corporate governance, transparency and accountability.*

**Platinum Award for Corporate Social Responsibility Category for National Annual Corporate Report Awards (NACRA) 2009 ④**

*Recognition for the Company's commitments and efforts to operating in an economically, socially and environmentally sustainable manner whilst balancing the interest of diverse stakeholders.*



## awards and achievements



**Top 12 Companies in Asia Pacific for Top Companies For Leaders 2009 Study ⑤**

Recognition as the only Malaysian company among the top 12 companies in Asia Pacific to be listed under the Top Companies for Leaders Study conducted by Hewitt Associates.

**Top 20 Companies in Asia Pacific for Asian Sustainability Rating**

Recognition as the top company in Malaysia for sustainability disclosure and the only Malaysian company in the top 20 of 200 companies surveyed by CSR Asia in Asia Pacific.

**Overall Award Winner in KPMG/The Edge Shareholder Value Award 2008**

Recognition for the seventh consecutive year for the Company's exemplary shareholder value by achieving the highest economic profit per invested capital among all public listed companies in Malaysia.

**Overall Winner for Consumer Markets Category in KPMG/The Edge Shareholder Value Award 2008 ⑥**

Recognition for the Company's exemplary shareholder value by achieving the highest economic profit per invested capital in the Consumer Markets Category.

**Special Mention for Assurance Approach in ACCA Malaysia Sustainability Reporting Awards 2009 ⑦**

Recognition as one of three companies to have its Social Report externally assured, demonstrating indicators such as independence and impartiality, clarity and scope of assurance, methodology and depth of investigations, disclosure on shortcomings and recommendations.

**Ranked 1st in Most Committed to Strong Dividend Policy, 4th in Best Investor Relations and 6th in Best Corporate Governance for 2008 FinanceAsia Awards Poll**

Recognition for the Company's overall management, corporate governance and investor relations practices as well as commitment to strong dividend payment.

**Ranked Top 3 in Best Corporate Governance Practice in The Asset Corporate Governance Award 2008 ⑧**

Recognition as one of the top three companies with best corporate governance practices among Malaysian companies.

# 2009

## january

- CI-Kaizen portal went live to provide an online one stop centre hub to all employees for the CI-Kaizen programme
- Breakthrough 4 programme launched to continue our aim to be the 1st choice supply chain for Asia Pacific ①



## february



- Conducted financial analysts briefing on the Group's 4th Quarter 2008 financial results
- British American Tobacco Malaysia's cafeteria Shiok! officially reopened to provide employees with a new dining experience
- CI-Kaizen programme was launched company wide to all functions in the Company ②

## march

- Pledged help to flood-hit tobacco farmers in Kelantan and Terengganu ③
- Pledged against global warming by supporting Earth Hour 2009
- Published the British American Tobacco Malaysia Annual Report 2008
- Organised Family Day for our employees at Genting Highlands ④



# 2009 corporate events





## april

- Planted trees at Forest Research Institute of Malaysia under the Employee Volunteer Programme 5
- Conducted 48th Annual General Meeting 6
- Published British American Tobacco Malaysia Social Report 2006-2008 7
- Conducted financial analysts briefing on the Group's 1st Quarter 2009 financial results

## may

- Received recognition from the 2008 FinanceAsia Awards Poll for strong dividend policy, best corporate governance practice and investor relations
- Awarded with the British American Tobacco EHS Merit Award for Zero Accident



## june

- Awarded the Higher Education Starter Kit to children of the tobacco growing community
- Annual treasure hunt which took employees from Petaling Jaya to Johor Bahru 8



2009 was a year with many activities across the Company. These are a snapshot of activities and initiatives that took place in 2009.

## august

- Conducted Biz Update session to keep employees engaged and informed ⑨
- Won overall award for KPMG/The Edge Shareholder Value Award ⑩
- Recognised for the Company's Social Report 2006-2008 at the ACCA MaSRA Awards
- Introduced KENT Nanotek
- Four British American Tobacco Malaysia's employees embarked on the Borneo Programme 2009 to learn more about biodiversity
- Launched Paper Conservation Project to reduce daily paper usage



## july

- Took senior citizens of Caring Old Folks Home on a special day trip to Putrajaya under the Employee Volunteer Programme ⑪
- Conducted financial analysts briefing on the Group's 2nd Quarter 2009 financial results
- Launched PALL MALL limited edition products to offer differentiated menthol
- Organised the *Bring Your Difference* competition to spot outstanding talents for the Company



## september

- Launched newly improved British American Tobacco Malaysia corporate website
- Launched the Bring Your Difference – our global employer value proposition
- Named new Managing Director

october

- Commencement of commercial production of the new DUNHILL pack
- Five British American Tobacco Malaysia's employees embarked on the Biodiversity Conservation Dive Trip at Pulau Tinggi, Johor
- Launched KENT limited edition pack for 3TEK and MINTEK

december

- Won the Malaysian Corporate Governance (MCG) Index 2009 Distinction Award
- Ranked top 12 amongst Asia Pacific companies in Hewitt Associates Top Companies for Leaders (TCFL) study
- Awarded for Industry Excellence in the Consumer Products category and Platinum Award for Corporate Social Responsibility at the National Annual Corporate Report Awards 2009 14
- Introduced the new DUNHILL Reloc pack



november

- Company wide launch event for new DUNHILL Reloc pack in Macau
- Held Long Service Awards 2009 to honour long serving employees 12
- Awarded scholarships to deserving scholars pursuing higher education 13
- Obtained IMS recertification audit for ISO9001, ISO 140001 and OHSAS 18001
- Listed in the Asian Sustainability Rating as the sole Malaysian company in the top 20 out of 200 companies surveyed in Asia Pacific by CSR Asia
- Conducted financial analysts briefing on the Group's 3rd Quarter 2009 financial results





# LEADERSHIP

## Board Of Directors

- **Tan Sri Abu Talib bin Othman**  
PMN, PSM, SIMP, SSSA, DGSM, DPMS, DMPN,  
DCSM, JSM, KMN, PPT  
*Independent Non-Executive Director*  
**(Chairman)**
- **William Toh Ah Wah**  
*Non-Independent Executive Director*  
**(Managing Director)**  
(Appointed as Director on 5 March 2009)  
(Appointed as Managing Director on 1 October 2009)
- **Datuk Oh Chong Peng**  
PJN, JSM  
*Independent Non-Executive Director*
- **James Richard Suttie**  
*Non-Independent Non-Executive Director*
- **Stephen James Rush**  
*Non-Independent Executive Director*
- **Dato' Chan Choon Ngai**  
DSNS  
*Non-Independent Executive Director*
- **Dato' Ahmad Johari Tun Abdul Razak**  
DPCM, DSIS, DSAP  
*Independent Non-Executive Director*  
(Appointed as Director on 5 March 2009)
- **Jack Marie Henry David Bowles**  
*Non-Independent Executive Director*  
(Resigned as Director on 30 September 2009)

## secretary

**Chan Mei Mae**  
(LS 0009460)  
Tel : +60 (3)7491 7326  
Fax : +60 (3)7491 3772  
E-mail: Claire\_Chan\_Mei\_Mae@bat.com

## registered office

Virginia Park, Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +60 (3)7956 6899  
Fax : +60 (3)7955 8416  
E-mail: bat\_malaysia@bat.com

## company website

www.batmalaysia.com

## share registrar

**Tricor Investor Services Sdn Bhd**  
(formerly known as Tenaga Koperat Sdn Bhd)  
(Company No. 118401-V)  
Level 17, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel : +60 (3)2264 3883  
Fax : +60 (3)2282 1886  
E-mail: lay.kiow.lim@my.tricorglobal.com

## auditors

PricewaterhouseCoopers (AF 1146)  
Level 10, 1 Sentral  
Jalan Travers Kuala Lumpur Sentral  
P.O. Box 10192  
50706 Kuala Lumpur  
Tel : +60 (3)2173 1188  
Fax : +60 (3)2173 1288

## principal bankers

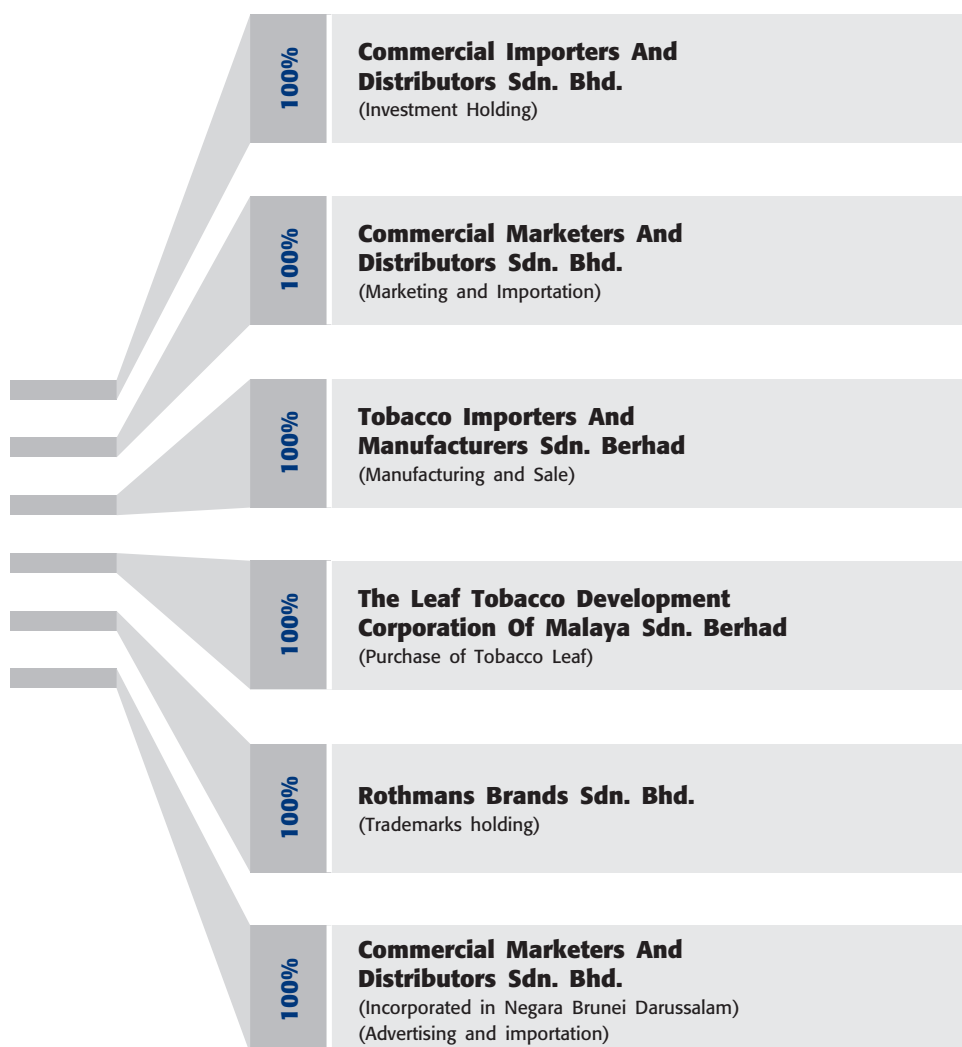
**Citibank Berhad**  
(Company No. 297089-M)  
  
**HSBC Bank Malaysia Berhad**  
(Company No. 127776-A)  
  
**Malayan Banking Berhad**  
(Company No. 3813-K)

## stock exchange listing

Main Market of  
Bursa Malaysia Securities Berhad  
(Company No. 635998-W)  
Listed Since: 27 October 1961  
Stock Code : 4162  
Stock Name: BAT

# corporate information

www.batmalaysia.com



**Note:**

The full list of the Company's subsidiaries is set out in Note 14 to the Reports and Financial Statements on pages 154 to 155 of this Annual Report.

**corporate structure**





## board of directors

From left to right

- |   |   |
|---|---|
| <p>① <b>Stephen James Rush</b><br/><i>Non-Independent Executive Director</i><br/><b>(Finance Director)</b></p> <p>② <b>Tan Sri Abu Talib bin Othman</b><br/><i>Independent Non-Executive Director</i><br/><b>(Chairman)</b></p> | <p>③ <b>William Toh Ah Wah</b><br/><i>Non-Independent Executive Director</i><br/><b>(Managing Director)</b></p> |
|---|---|



From left to right

④ **Dato' Chan Choon Ngai**  
*Non-Independent Executive Director  
(Operations Director)*

⑤ **Datuk Oh Chong Peng**  
*Independent Non-Executive Director*

⑥ **James Richard Suttie**  
*Non-Independent Non-Executive Director*

⑦ **Dato' Ahmad Johari bin  
Tun Abdul Razak**  
*Independent Non-Executive Director*





### 1 Tan Sri Abu Talib bin Othman

PMN, PSM, SIMP, SSSA, DGSM, DPMS, DMPN, DCSM, JSM, KMN, PPT

*Independent Non-Executive Director*

**(Chairman)**

*Malaysian, Age 71 years*

Tan Sri Abu Talib bin Othman was appointed Chairman of the then Rothmans of Pall Mall (Malaysia) Berhad in 1994, now British American Tobacco (Malaysia) Berhad.

He qualified as a barrister-at-law from Lincoln's Inn, United Kingdom. Tan Sri Abu Talib had a distinguished career as a member of the Judicial and Legal Service of the Government from 1962 to 1993, serving in various capacities including as Malaysia's Attorney-General from 1980 to his retirement in October 1993.

Upon his retirement, Tan Sri Abu Talib was appointed non-executive director in various public and private companies. Tan Sri Abu Talib is presently a Non-Executive Chairman of IGB Corporation Berhad, Alliance Investment Management Berhad, CYL Corporation Berhad and MUI Continental Insurance Berhad. He is also a Non-Executive Director of other private companies. In 1983, he was appointed as Trustee of Neoh Foundation and in 1985, in Yayasan Sultan Iskandar Johor. He is currently the Chairman of Suruhanjaya Hak Asasi Manusia (Suhakam).

He is the Chairman of the Remuneration Committee and Nomination Committee and a member of the Audit Committee of the Company.

Tan Sri Abu Talib attended all of the 6 Board Meetings which were held in the financial year ended 31 December 2009.

Tan Sri Abu Talib does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

### 2 William Toh Ah Wah

*Non-Independent Executive Director*

**(Managing Director)**

*Malaysian, Age 52 years*

William Toh Ah Wah was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009 and as Managing Director of the Company on 1 October 2009.

William Toh holds a Bachelor of Commerce from the Concordia University, Montreal, Canada. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1981 as a management trainee, now British American Tobacco (Malaysia) Berhad and held various marketing roles including Area Manager and Marketing Manager. He was seconded to China in 1991 and during his tenure overseas has held various positions including General Manager for Shandong Rothmans Tobacco Company Limited, China (1991-1994), Sales & Marketing Director China/Hong Kong for Rothmans (Far East) Limited (1994-1996), General Manager Taiwan of Rothmans (Far East) Taiwan Limited (1996-1997), General Manager China/Hong Kong of Rothmans (Far East) Limited (1997-1998) and Managing Director Greater China of Rothmans (Far East) Limited (1998-1999).

He joined British American Tobacco (Malaysia) Berhad in 1999 and thereafter held various positions including Business Development Director China for British American Tobacco Asia Pacific North (1999-2003), Managing Director of British American Tobacco New Zealand Limited (2003-2005), Managing Director of Pakistan Tobacco Company Limited (2005-2008), the Area Director of British American Tobacco South Asia Area (2007-2008), the Area Director of the Indonesia Cluster (covering the markets of Indonesia, Thailand and Philippines) (2008-2009) and the Regional Project Manager of British American Tobacco Asia Pacific Region Limited (2008-2009).

William Toh is a member of the Remuneration Committee of the Company.

Since his appointment to the Board of Directors of British American Tobacco (Malaysia) Berhad, William Toh attended 5 Board Meetings in the financial year ended 31 December 2009.

William Toh does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

## profile of directors





### 3 **Datuk Oh Chong Peng**

PJN, JSM

*Independent Non-Executive Director*

*Malaysian, Age 65 years*

Datuk Oh Chong Peng was appointed a Non-Executive Director of the then Rothmans of Pall Mall (Malaysia) Berhad in January 1998, now British American Tobacco (Malaysia) Berhad.

He undertook his accountancy training in London and qualified as a Chartered Accountant in 1969. He is a Fellow of the Institute of Chartered Accountants, England and Wales (ICAEW) as well as a member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

Datuk Oh joined Coopers & Lybrand (now known as PricewaterhouseCoopers) in London in 1969 and in Malaysia in 1971. He had serviced clients of Coopers & Lybrand throughout Malaysia and ASEAN, which covered a broad range of industries including financial services, construction, real estate, manufacturing, hospitality and services. He was a partner of Coopers & Lybrand, Malaysia from 1974 and retired as a Senior Partner of Coopers & Lybrand in 1997.

Datuk Oh currently sits as the Chairman of Alliance Financial Group Berhad. He is also a Non-Executive Director of several public companies, such as IJM Corporation Berhad, IJM Plantations Berhad, Kumpulan Europlus Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad and several other private companies.

Datuk Oh is a Government appointed member of the Labuan Offshore Financial Services Authority (1996). He is also a trustee of the UTAR Education Foundation (2002) and a council member of Universiti Tunku Abdul Rahman. In 2008, he was appointed a member of the Listing Committee of Bursa Malaysia.

His past appointments include being a Government appointed Committee Member of the Kuala Lumpur Stock Exchange (1990-1996), a Council member (1981-2002) and a past President (1994-1996) of the Malaysian Institute of Certified Public Accountants (MICPA), a Chairman of the Land & General Berhad (1999-2007), a Director of Powertek Berhad (1997-2003), Rashid Hussain Berhad Group of Companies (1998-2003), Renong Berhad (2001-2003), Nanyang Press Holdings Berhad (2001-2005), Rohas-Euco Industries Berhad (2007-2008) and Star Publications (M) Bhd (1987-2009), a trustee of the Huaren Education Foundation (1993-2009) and a board member of Malaysian Accounting Standards Board (MASB) (2003-2009).

Datuk Oh Chong Peng is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company.

Datuk Oh Chong Peng attended all of the 6 Board Meetings which were held in the financial year ended 31 December 2009.

Datuk Oh does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

3





#### 4 James Richard Suttie

*Non-Independent Non-Executive Director  
British, Age 63 years*

James Richard Suttie was appointed a Director of British American Tobacco (Malaysia) Berhad in May 2002. He is a member of the Institute of Chartered Accountants of Scotland and an Associate of the Chartered Institute of Taxation. He joined Rothmans International p.l.c. as a Commercial Accountant/Manager in 1972 and became the Finance Director of Carreras of Jamaica Ltd. in 1982, Rothmans International Europe in 1984 and Rothmans of Pall Mall (Malaysia) Berhad in 1992. In 1997, he was appointed the Regional Finance Controller for Rothmans International in Asia. In 1999, he was appointed the Regional Finance Controller, Africa and in 2002 as Regional Finance Controller, Asia Pacific, of British American Tobacco p.l.c. until his retirement from British American Tobacco p.l.c. on 31 December 2006.

He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

James Suttie attended all of the 6 Board Meetings which were held in the financial year ended 31 December 2009.

James Suttie does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

#### 5 Stephen James Rush

*Non-Independent Executive Director  
(Finance Director)  
Australian, Age 42 years*

Stephen James Rush was appointed a Director of British American Tobacco (Malaysia) Berhad in March 2008. He holds a Bachelor of Business from the University of Technology, Sydney.

Stephen Rush first joined the British American Tobacco Group as an Internal Auditor for British American Tobacco Australia in 1995 before taking on the roles of Operations Finance Manager and Marketing Finance Manager from 1997 to 2001. In April 2001, he was appointed the Finance Director of British American Tobacco Cambodia before moving on to assume the post of Finance Director of British American Tobacco Poland.

Prior to his appointment with British American Tobacco (Malaysia) Berhad as Finance Director, Stephen Rush joined the European Regional Team as the Deputy Regional Finance Controller for British American Tobacco p.l.c. in 2004. In his role, Stephen Rush was primarily responsible for the financial performance of Central and Eastern Europe.

Stephen Rush attended all of the 6 Board Meetings which were held in the financial year ended 31 December 2009.

Stephen Rush does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.



**6 Dato' Chan Choon Ngai**

DSNS

*Non-Independent Executive Director***(Operations Director)***Malaysian, Age 54 years*

Dato' Chan Choon Ngai was appointed a Production Director of the then Rothmans of Pall Mall (Malaysia) Berhad, now British American Tobacco (Malaysia) Berhad in October 1995. He holds a Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom. He joined Rothmans of Pall Mall (Malaysia) Berhad in 1979, as Production Management Trainee and held various significant positions in the production division including Production Executive Make and Pack (1980-1982), Personal Assistant to Rothmans International World Production Director, Rothmans International United Kingdom (1982-1984), Acting Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1984-1986), Factory Manager Rothmans of Pall Mall (Malaysia) Berhad (1986-1994) and Production Director (Designate) of Rothmans of Pall Mall (Malaysia) Berhad (1994-1995). He was a director of Tien Wah Press Holdings Berhad from May 1997 to June 2003.

In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad.

Dato' Chan attended all of the 6 Board Meetings which were held in the financial year ended 31 December 2009.

Dato' Chan does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.

**7 Dato' Ahmad Johari bin Tun Abdul Razak**

DPCM, DSIS, DSAP

*Independent Non-Executive Director**Malaysian, Age 55 years*

Dato' Johari Razak bin Tun Abdul Razak was appointed a Director of British American Tobacco (Malaysia) Berhad on 5 March 2009. Dato' Ahmad Johari holds a Bachelor of Laws degree from the University of Kent, United Kingdom. He was called to the Bar of England and Wales at Lincoln's Inn in 1976 and was admitted as an Advocate and Solicitor of the High Court of Malaya in 1977. He practiced law with a large law firm from 1979 and was a partner of the firm from 1981 to 1994. He re-joined the firm as a partner on 1 August 2007.

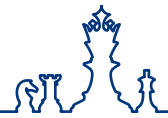
Dato' Ahmad Johari is currently the Chairman of Ancom Berhad, Courts Mammoth Sdn Bhd and Daiman Development Berhad and a director of Hong Leong Industries Berhad, Nylex (Malaysia) Berhad, Daiman Golf Berhad and Deutsche Bank (Malaysia) Berhad. He is also a member of other board committees in Hong Leong Industries Berhad, Ancom Berhad, Daiman Development Berhad and Deutsche Bank (Malaysia) Berhad. In the academic field, he is presently an Adjunct Professor at University of Technology Mara Law Faculty.

Dato' Ahmad Johari is a member of the Nomination Committee and Audit Committee of the Company.

Since his appointment to the Board of Directors of British American Tobacco (Malaysia) Berhad, Dato' Ahmad Johari attended 5 Board Meetings in the financial year ended 31 December 2009.

Dato' Ahmad Johari does not have any family relationship with any Director and/or major shareholder of British American Tobacco (Malaysia) Berhad, nor any conflict of interest in any business arrangement involving the Company. He has had no convictions for any offences within the past 10 years.





## top team members

From left to right

- ① **William Toh Ah Wah**  
Managing Director
- ② **Rashed Ahmed**  
Marketing Director

- ③ **Cheryl Ann Wong Wai Leng**  
Human Resources Director





From left to right

- ④ **Stephen James Rush**  
Finance Director
- ⑤ **Christine Lee Oi Kuan**  
Corporate and Legal Affairs Director

- ⑥ **Dato' Chan Choon Ngai**  
Operations Director
- ⑦ **Allen Lim Hun Chye**  
Business Development Services Director





## profile of top team members

### 1 William Toh Ah Wah

#### Managing Director

Malaysian, Age 52 years

William Toh holds a Bachelor of Commerce from the Concordia University, Montreal, Canada.

He joined Rothmans of Pall Mall (Malaysia) Berhad in 1981 as a management trainee and held several portfolios over the years including Managing Director Greater China of Rothmans (Far East) Limited (1998-1999), Business Development Director China for British American Tobacco Asia Pacific North (1999-2003), Managing Director of British American Tobacco New Zealand Limited (2003-2005), Managing Director of Pakistan Tobacco Company Limited (2005-2008), the Area Director of British American Tobacco South Asia Area (2007-2008) and the Area Director of the Indonesia Cluster (covering the markets of Indonesia, Thailand and Philippines) (2008-2009) and double-hatted as the Regional Project Manager of British American Tobacco Asia Pacific Region Limited (2008-2009).

William Toh is a member of the Board of Directors and is also a member of Remuneration Committee of the Company.

Details of William Toh's profile are set out on page 36 of this Annual Report.

### 2 Dato' Chan Choon Ngai

#### DSNS

#### Operations Director

Malaysian, Age 54 years

Dato' Chan Choon Ngai holds a Bachelor of Science in Mechanical Engineering degree from the University of Birmingham, United Kingdom. He has been with the Group since 1979. He held various significant positions in the Company's production division namely, Production Director and Factory Manager.

Dato' Chan is a member of the Board of Directors and is also a member of the Board of Directors for several subsidiaries in the Group.

Details of Dato' Chan's profile are set out on page 39 of this Annual Report.

### 3 Cheryl Ann Wong Wai Leng

#### Human Resources Director

Malaysian, age 42 years

Cheryl Ann Wong Wai Leng joined British American Tobacco (Malaysia) Berhad in 2004 as a Talent Development Manager and assumed the role as Head of Marketing HR in 2005. She was seconded to British American Tobacco Vietnam in 2007 as the Human Resources Director and double-hatted as the Area Head of Human Resources, British American Tobacco East Asia Area. In this role, Cheryl spearheaded the Area Talent Programme to focus on effectively filling the talent pipeline at junior and mid-career levels in the context of challenging emerging markets, provided high-impact development opportunities for local talent and started creating a workplace where employees could perform at their best, thereby preparing the organisation for the challenges ahead. In November 2008, Cheryl was appointed as the Human Resources Director of British American Tobacco (Malaysia) Berhad. Prior to Cheryl joining the British American Tobacco Group, she was a Country Human Resources Manager in Accenture Malaysia.

She holds an honours degree in Economics, majoring in Business Administration from the University of Malaya and a Masters in Business Administration from the Heriot-Watt University, Edinburgh.

### 4 Stephen James Rush

#### Finance Director

Australian, Age 42 years

An accountant by profession, Stephen James Rush joined the British American Tobacco Group in 1995. He held several portfolios over the years including Finance Director of British American Tobacco Cambodia, Finance Director of British American Tobacco Poland and Deputy Regional Finance Controller for British American Tobacco plc.

Stephen Rush is a member of the Board of Directors and is also a member of the Board of Directors for several subsidiaries in the Group.

Details of Stephen Rush's profile are set out on page 38 of this Annual Report.



**5 Christine Lee Oi Kuan****Corporate and Legal Affairs Director***Malaysian, Age 51 years*

Christine Lee Oi Kuan was appointed to the Top Team of British American Tobacco (Malaysia) Berhad on 1 January 2006 and assumed the role of Corporate and Legal Affairs Director of British American Tobacco (Malaysia) Berhad on 1 September 2006. She has been with British American Tobacco (Malaysia) Berhad since 2001.

Christine Lee began her career in British American Tobacco (Malaysia) Berhad as Head of Legal and Company Secretary. She was previously the Legal Manager and Company Secretary of two public listed companies, Hong Leong Industries Berhad and Malaysian Pacific Industries Berhad.

Holder of a degree in law from the University of Malaya, Christine Lee served at the Attorney General's Chambers, Malaysia from 1983-1993 in the Prosecution and Advisory and International Law Divisions.

In her current role as the Corporate and Legal Affairs Director, Christine Lee is responsible for corporate and regulatory affairs and legal matters of the Group.

**6 Lim Hun Chye @ Allen Lim****Business Development Services Director***Malaysian, age 53 years*

Lim Hun Chye @ Allen Lim joined as a Commercial Accountant of the then Rothmans of Pall Mall (Malaysia) Berhad in 1990, now British American Tobacco (Malaysia) Berhad. He holds a degree in Commerce from the University of Melbourne and a MBA from Monash University, Australia. He is a member of both the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. In addition, he is also a member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). He worked in various operational roles spanning both the Information

Technology and Finance functions. Post the announcement of the merger between Rothmans of Pall Mall and Malaysian Tobacco Company Berhad in 1999, Allen was appointed the Integration Manager. He then took on the role of Corporate Finance Manager for 2 years before becoming Head of Brand Marketing Finance in 2004 and subsequently the Head of Marketing Finance in 2005. In April 2006, Allen assumed the role of Head of Strategic Business Development and in September 2006, he was appointed as the Business Development Director.

Allen assumed the role of Business Development Services Director in December 2008 which is an expansion of his current portfolio to include Anti Illicit Trade, Information Technology, Strategy and Planning, Programme Management Office and Business Security.

**7 Rashed Ahmed****Marketing Director***Bangladeshi, Age 42 years*

Rashed Ahmed was appointed Marketing Director of British American Tobacco (Malaysia) Berhad in May 2007. He holds a degree in Business Administration from the International Islamic University, Malaysia.

He joined British American Tobacco Bangladesh in 1995 and held various positions from 1995 to 1998. Rashed Ahmed was the Head of International Brands for British American Tobacco Poland from 2000 to 2002. Thereafter, he was Head of Marketing for British American Tobacco Bangladesh from 2003 to 2007. Prior to Rashed Ahmed joining the British American Tobacco Group, he was a Brand Manager in Unilever Bangladesh Limited.





# GROWTH DUNHILL

2009 was a year of consolidation as we redefined our leadership in the tobacco industry. We significantly enhanced our portfolio while sharpening our Trade Marketing and Distribution capabilities and with this, we believe that we have strengthened the organisation's marketing prowess to meet the challenges of 2010 and beyond to ensure sustainability of our business.

## global drive brands

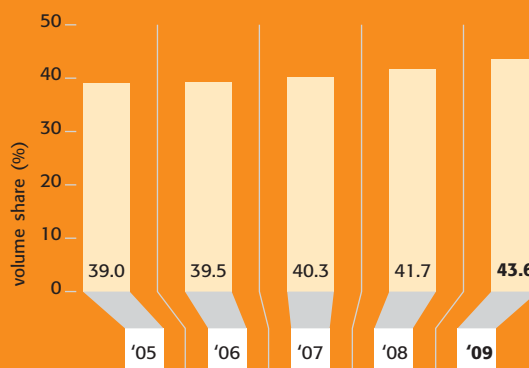
Our Global Drive Brands continued their momentum in 2009 after an exciting 2008. Against the backdrop of a soft economic situation, our brands remained resilient. DUNHILL continued to position itself as the No. 1 brand in Malaysia, whilst KENT charted new milestones in its bid to achieve Premium Lights and Menthol leadership. In the value for money (VFM) segment, we consolidated our portfolio to position PALL MALL as the key drive brand. We continued to drive for growth of our Global Drive Brands and meet the needs of adult consumers.

For the fourth year running, DUNHILL continued to demonstrate impressive growth despite challenging industry dynamics and economic uncertainty which impacted consumer spending power. DUNHILL's share of market grew by 1.9 percentage points to 43.6%, demonstrating strong brand equity.

DUNHILL also continued its impressive growth in the share of premium segment, outgrowing its premium competitors.

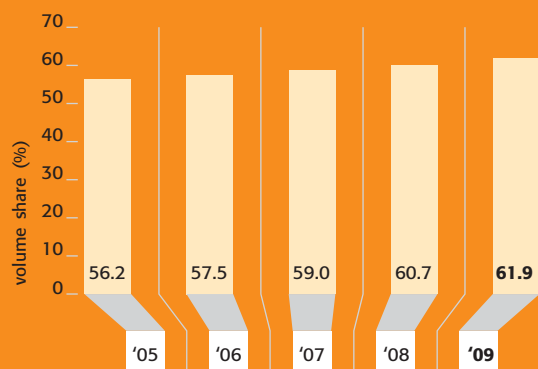
## redefining premium segment

Through a focussed approach behind the 'Perfectionist in Tobacco' positioning last year and a strong heritage (since 1907), DUNHILL continued its momentum in 2009, with additional focus into Lights and Menthol segments. DUNHILL also started to redefine the premium segment with a significant new dimension through the introduction of the resealable Reloc pack to ensure freshness of the product.



DUNHILL share of market from 2005 to 2009

## redefining leadership of global drive brands for sustainable growth



**DUNHILL share of premium from 2005 to 2009**

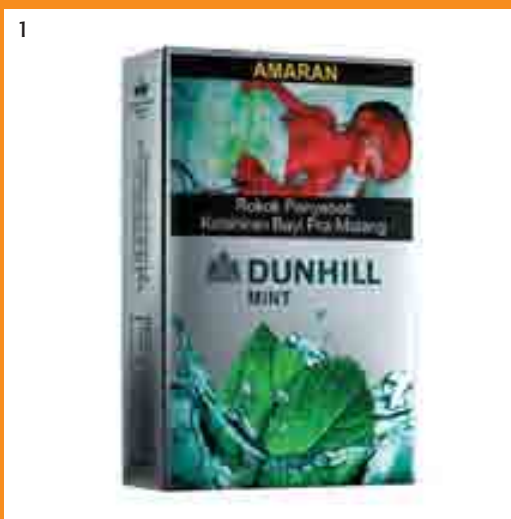
## 2009 DUNHILL Highlights

**1**  
DUNHILL Menthol 20s Limited Edition Packs.

**2**  
DUNHILL Limited Edition Packs for the full range (20s and 14s), epitomising the brand's inherent high quality standards.

**3**  
DUNHILL redefined Premium through the introduction of a new DUNHILL pack with Reloc (Exclusively by DUNHILL).

**4**  
DUNHILL Menthol and Menthol Lights 20s Limited Edition Packs (Products shown in the visual were introduced prior to the implementation of pictorial health warnings as required by the Government).



### DUNHILL RELOC RESEALABLE FOIL IN 20S PACK

In December 2009, the Company introduced a new pack design for DUNHILL and among other new features, the 20s pack main feature is the Reloc resealable foil. This patented technology exclusively owned by DUNHILL, essentially seals the product for taste and freshness.

This feature is part of the global direction for the new DUNHILL pack design which has already been made available in other selected countries where British American Tobacco Group companies operate.

With this superior offering, DUNHILL is redefining the premium segment in strengthening its market leadership.





### pioneering taste transmission technologies

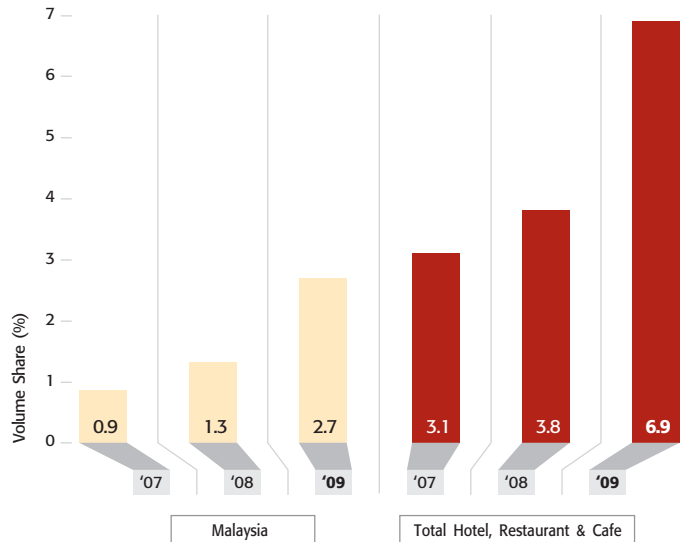
Since KENT's relaunch in the second half of 2008, the brand has pioneered taste transmission technologies through 3TEK (Triple Filter Charcoal Technology) and MINTEK (MINTEK Charged Flavour Technology) to meet consumer needs and made inroads into the Premium Lights and Menthol segments.

Post Peter Stuyvesant to KENT migration, KENT Red has taken a new dimension with the introduction of KENT Red in hard pack format to carve a niche in the Premium Full Flavour segment.

KENT Nanotek, the first King Size Super Slims introduced in Malaysia, reinforced KENT's credentials in offering consumers with products that incorporate taste transmission technologies.

### KENT share of market

KENT experienced a sturdy performance within the Premium segment, carving key successes against its key competitor in selected areas.



KENT share of market from 2007 to 2009

### 2009 KENT Highlights

- 1** KENT Nanotek in its King Size Super Slims reinforced KENT's credentials in offering consumers with products that incorporate taste transmission technologies.
- 2** KENT Red in hard box format for discerning adult consumers.
- 3** KENT Limited Edition Packaging for 3TEK and MINTEK.

# KENT

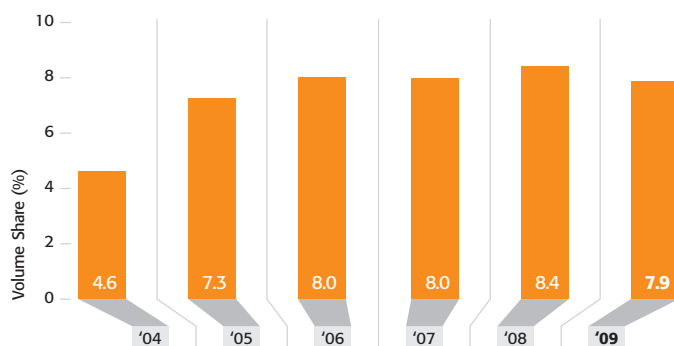






### driving value to consumers

PALL MALL experienced an eventful year in 2009, coming out resilient despite intense competition within the value for money (VFM) and exceptionally low priced cigarettes (ELPC) segments by driving value to consumers as they decide on brand choice based on quality, value and affordability.



PALL MALL share of market from 2004 to 2009

### consolidating the value portfolio

After undertaking a successful migration of Perilly's in 2008, PALL MALL undertook an important migration step by absorbing our other value tail end brands. This consolidation allows a focussed approach in the portfolio. With a new global look introduced in 2008 and its strong brand asset, PALL MALL had and will continue to deliver further value to adult consumers.

### 2009 PALL MALL Highlights

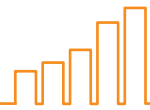


**1** Brands that were migrated into PALL MALL (Products shown in the visual were migrated into PALL MALL prior to the implementation of pictorial health warnings as required by the Government).

**2** PALL MALL delivered value with leadership by offering 18s pack size and is the only value brand that provides an offer in all available pack sizes.

**3** Reinforcing PALL MALL Menthol expertise and leadership by offering a choice of two differentiated Menthol experience.

# PALL MALL



“Distribution networks were further enhanced in 2009 with more distribution points being consolidated and further improvement in network effectiveness and efficiency processes.”



#### **strengthened trade marketing and distribution capabilities**

With this fundamental foundation in place, our frontliners, the sales force would be able to deliver the best services to our trade partners. Several efficiency projects such as route optimisation in Direct Sales Store Kuala Lumpur and initiation of trading terms for our business partners in Direct Sales Store Penang and Johor Bahru have been implemented to cement a strong network chain to strengthen the coverage network and also create a cost effective way of doing business.



**1** Sales force underwent the Take Charge programme for development.

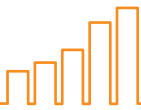
**2** Systematic warehouse procedures in all Direct Sales Store.

#### **enhanced business partnerships with exclusive distributor excellence (EDx) programme**

In our pursuit to build long term sustainable partnerships with our business partners, we have successfully implemented distribution network consolidations in East Coast (Terengganu) and North (Alor Setar and Kangar). Through these network consolidations, we have built better working relationships with our business partners who now have better clarity and are aligned to our business objectives.

In ensuring the sustainability of our partnerships with our business partners in the Exclusive Distributor Excellence (EDx) programme, we have put in place structured business review sessions to review and formulate action plans to improve key performance indicators, performance related incentives and the working environment for our people.

## **redefining our trade marketing and distribution capabilities**



**1** Our trade marketing and distribution capabilities are well defined to deliver effective and consistent high services to customers.

### winning as one

With the introduction of a comprehensive incentive scheme for our sales force in 2009, performance rewards were based on business results. The scheme was a success with emphasis placed on an individual's contribution which at the same time promotes teamwork performance. To further motivate our sales force and drive for better performances, high achievers were given due recognition during an appreciation dinner.

### upskilling and best practices training and development

Network consolidations are not merely focused on physical distribution points and processes but also on people change management. We are committed and have invested to ensure our sales force are well developed with the right skills.

Our sales force with our business partners from the EDx programme underwent a robust programme called the Take Charge programme to cultivate a positive mindset and build confidence. As a standard practice, all our sales force personnel attended refresher briefings on best practices to adopt such as the 5 step selling-in processes to ensure we deliver the best services to our business partners.



# PRODUCTIVITY

Effective and smart cost management was our key focus in 2009 as we seek to effectively and efficiently deploy our resources. We believe that by lowering our cost base, enhancing the quality of our products, increasing speed to market of our products and improving the effectiveness of our overall operations, these steps will provide the platform for our manufacturing entity to be the No. 1 Supply Chain in Asia Pacific.



**1** Gan Geok Moi, Senior Responsible Owner (left) and Tan Chee Leong, Project Manager from Breakthrough Office putting together the blocks of Breakthrough 4 at the launch.

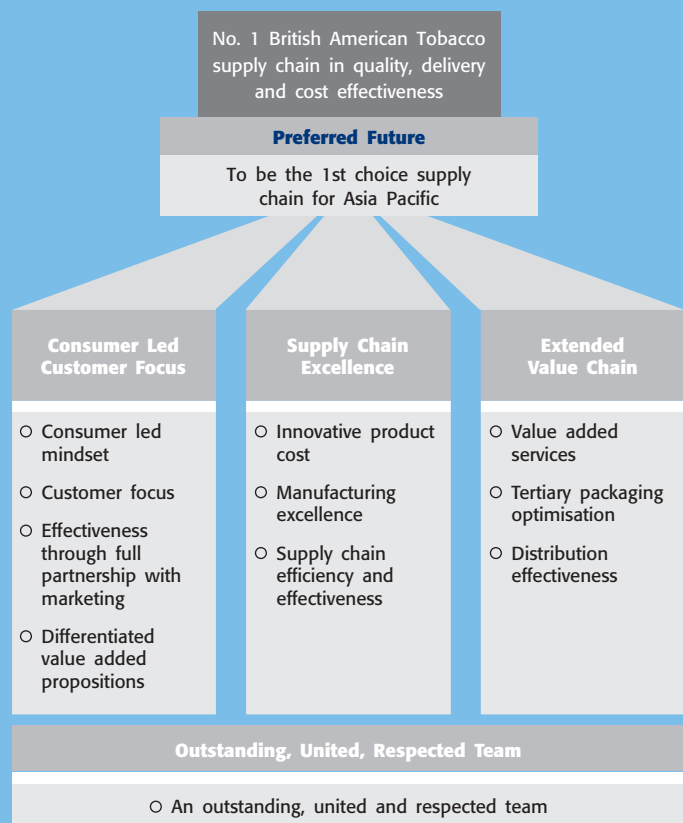
**2** Breakthrough 4 officially launched.



## Breakthrough 4

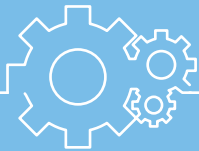
Breakthrough 4 (BT4) is the fourth phase of the Breakthrough journey which started in 2002. It is a continuation of the Breakthrough 1 programme (2002-2004) which focused on factory performance improvements, Breakthrough 2+ (2005-2006) on Customer focussed end-to-end Supply Chain and Breakthrough 3 (2007-2008) on becoming the 1st Choice Supply Chain for Asia Pacific.

Our Breakthrough 4 aims are captured in this diagram:



**redefining productivity to effectively and efficiently deploy our resources**





### consumer led customer focus

Initiatives implemented under this pillar were aimed at providing knowledge and guidance to our Operations employees to develop a quality mindset and competency to deliver “Proudly Made in Malaysia” products and services to all our customers.

### supply chain excellence

The focus under this pillar in 2009 was to ensure that we continue to be the manufacturer of superior quality premium products with optimum cost.

### extended value chain

This was formed specifically to extend value added services to both our domestic and export customers by understanding their needs in order to provide total business solutions.

### outstanding, united, respected team

The focus under this pillar was to build a winning team with the right mindset, skills and capabilities for a benchmark supply chain.

Since the successful launch of Breakthrough 4 in January 2009, we have achieved the following:-

- Exceeded productivity savings target by 30%
- Reduction by 17% in consumer complaints related to product quality
- Successfully commissioned the manufacturing machines required on time to support the launch of new DUNHILL packaging
- Implemented a “Field Attachment” programme for Operations employees to go out to the market and experience the role of a Sales Specialist to facilitate better understanding
- Introduced “Make Experience” programme for our internal customers to experience a well managed cigarette manufacturing environment and processes
- Rolled out Vendor Managed Inventory programme to our exclusive distributor in Kelantan and Terengganu to help optimise stock inventory
- Developed a talent framework to strengthen individual performance and leadership to promote supply chain professionalism and expertise
- Successfully implemented “in-house tertiary packaging” centre to reduce marketing expenditure on its co-packing activities



**1**  
Dato' Chan Choon Ngai, Operations Director at the launch of Breakthrough 4.

**2**  
The Operations team's performance during the launch of Breakthrough 4.





### continuity in continuous improvement – kaizen (CI-KAIZEN) programme

With the success of the CI-Kaizen programme implemented in Supply Chain function since October 2006, the programme was officially extended to all other functions in the Company in February 2009. All employees were encouraged to practice positive mindset change and bring continuous improvement in all aspects which included work simplification, cost savings, safety, quality and environment. An online CI-Kaizen portal was also launched to effectively track and measure continuous improvement ideas and initiatives submitted by our employees.

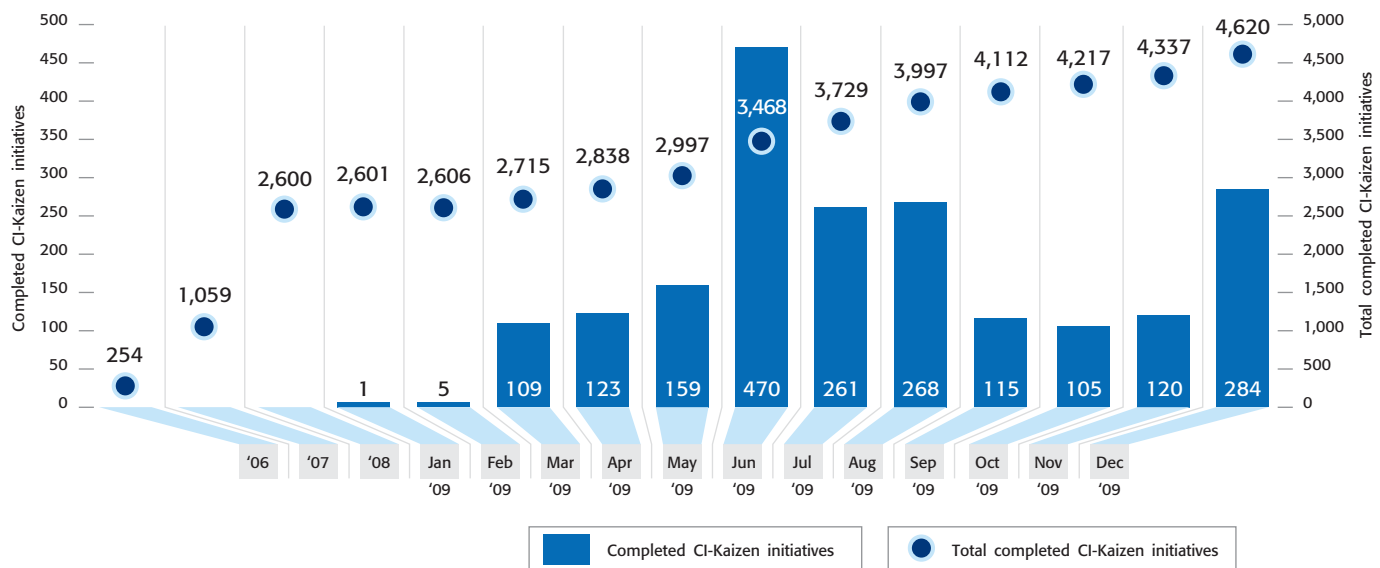
For 2009, a total of 2,020 CI-Kaizen initiatives were completed with an average of 1 out of 2 employees having submitted a CI-Kaizen initiative.



**1**  
The CI-Kaizen company wide launch event was officiated by Top Team members as the Project Board.

**2**  
CI-Kaizen champions from all functions are ambassadors for the programme.

#### completed company-wide CI-Kaizen Initiatives from 2006 to 2009



Before



After



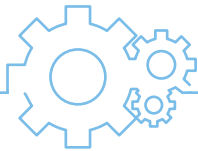
#### CONTINUOUS IMPROVEMENT – KAIZEN

##### Before

Our reject station previously had no cover or guard which can cause hand injury as the opening was exposed.

##### After

A plastic guard was installed to provide a cover to the exposed area at the reject station, and hence increasing the safety of the workplace for our employees.



### leveraging technology to support trade marketing and distribution

In 2009, the Company introduced the use of tablet personal computer to all trade marketing executives nationwide to provide new capabilities in the execution of their daily tasks in the field. The slate-shaped mobile computer, equipped with a touch-screen and digital pen, was introduced with the primary focus to provide speed and facilitate convenient access and reference to information. This has improved efficiency in the execution of daily tasks and provided clarity to roles and responsibilities of the trade marketing executives.

### new system to support forecasting and production planning

In June 2009, a new Advanced Planner and Optimiser Demand Capture (APODC) system was implemented to enable the Company to upload demand and integrate sales forecasting data and production planning with all British American Tobacco Group companies in Asia Pacific. This system has helped forecasting and production planning to be more accurate, less time consuming and at less cost compared to the old process where data collation and alignment were done manually.

With this system in place, the Company would now be able to achieve speed to market by responding to both seasonal and spontaneous change, manage production and sales to take into account demand fluctuations and achieve savings.

### successful roll out of single sign-on system

In order to improve productivity and simplifying the process for our employees in accessing various applications in the Company's IT system, the Single Sign-On system was introduced in 2009 for all employees. This system is a tool to automate log-in process for users and allows access control of multiple applications. As a result, the system helped to enhance users' productivity.



**1** Use of tablet personal computer were introduced to enhance efficiency.

*Before*



*After*



### CONTINUOUS IMPROVEMENT – KAIZEN

#### Before

Our tobacco slicer previously generated excess during slicing of tobacco bales and the excess was trapped at the side of the slicer. The excess would then be collected and added back to the slicing process.

#### After

A metal chute was installed at the tobacco slicer to enable the excess to fall directly into the conveyor during the slicing process which will remove the need to collect and add the excess again into the process. As a result, it helped to increase productivity.



# RESPONSIBILITY

Responsibility forms an integral pillar of British American Tobacco Malaysia's business strategy. In 2009, we continued to focus on demonstrating our accountability towards corporate conduct and towards the communities we operate in while reducing the impact of our operations on the environment, which are important aspects in the long term sustainability of our business.

British American Tobacco Malaysia places emphasis on the fact that Corporate Responsibility (CR) is not to be regarded as a "tick in the box" exercise. Responsibility has been embedded in the veins of our business since we started our business over 90 years ago and to us, running the business responsibly is just as important as delivering Growth and Productivity while developing a Winning Organisation.

As an integral pillar of British American Tobacco Malaysia's business strategy, Responsibility exudes more than just a term of quantifying how our business operations are conducted – it is a prerequisite that governs the very strategy and objectives of how the Company makes its money, and not how it is spent. Through this commitment, the Company as a responsible corporate citizen and the leading tobacco manufacturer in Malaysia recognises the need to strengthen its accountability towards corporate conduct, the communities it operates in, and reducing its impact on the environment.

Even more so in current times of economic uncertainty, when concerns of the profitability of a company beckons reductions on CR initiatives, British American Tobacco Malaysia firmly believes and advocates that not only should CR initiatives continue to be conducted, but further enhanced to ensure the sustainability of the business. This is evident through the numerous initiatives that the Company has conducted in 2009.

In addition, British American Tobacco Malaysia is taking the lead to disclose our CR initiatives in accordance with the Global Reporting Initiative Indicators in this Annual Report to ensure comprehensive and concise reporting. This is a demonstration of our commitment to walk the talk in exemplifying responsibility.

British American Tobacco Malaysia will thus continue diligently in its CR journey to strengthen responsible behaviour in all our corporate, social and environmental endeavours.

Corporate Social Responsibility Committee  
British American Tobacco Malaysia

**demonstrating redefined leadership  
in corporate responsibility**



## corporate responsibility governance – commitment from the top

The governance of our CR is a process that British American Tobacco Malaysia takes seriously, as it is integral in embedding CR across all aspects of our business operations.

While a dedicated Corporate Social Responsibility (CSR) team is tasked to coordinate and implement CR initiatives, the Company is governed by a CSR Committee that comprises all members of British American Tobacco Malaysia's functional directors, or Top Team as they are called. Chaired by the Managing Director, the CSR Committee reports on the Company's CR initiatives to the Board of Directors via the Audit Committee and meets at least twice a year. This line of reporting is further escalated to the British American Tobacco Regional CSR Committee, which in turn reports to the British American Tobacco Global CSR Committee.

The objectives of the CSR Committee are as follows:

- Identification and management of key social and environmental issues;
- Engagement with relevant stakeholders on CR initiatives;
- Monitoring efficiency and effectiveness of CR management systems and controls;
- Ensuring reliability of social and environmental performance management information; and
- Monitoring alignment with the Company's Statement of Business Principles – Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct.

## British American Tobacco Malaysia's CR Framework

The Company's CR Framework is aligned to Bursa Malaysia's CSR Framework which was launched as a guideline for public listed companies in the implementation and reporting of corporate social responsibility.

In accordance with this, British American Tobacco Malaysia's CR initiatives are integrated in line with the four pillars and focal areas of Community, Workplace, Environment and Marketplace.







## Community Pillar

Our involvement in the community is driven by our commitment to add value to the communities in which we operate and in 2009, we held various activities to achieve this objective through the British American Tobacco Malaysia Foundation.

### **scholarships to deserving students**

The British American Tobacco Malaysia Foundation aims to foster, develop and improve education opportunities to deserving students and in line with this belief, our scholarship programme reaches out to deserving employees and their children, as well as the retailers and tobacco leaf growers and curers community.

We further renewed our commitment in 2009 by increasing the value of scholarship in all categories, whilst maintaining the distinct feature that sets the British American Tobacco Malaysia Foundation Scholarships apart from others – it is non-binding and recipients may choose any course or institute of higher education of their desire within Malaysia.

Recipients are also given the opportunity to join British American Tobacco Malaysia as interns should their courses allow or require it. Upon graduation, the recipients will also be given the opportunity to apply for the Company's Global Management Trainee Programme.

In 2009, the British American Tobacco Malaysia Foundation awarded RM307,000 to 17 aspiring students for the complete duration of their higher education courses.

**1**  
Ramli Haji Thamby Hashim, Head of Leaf (centre), presenting the HESK to children from the tobacco growing community.

**2**  
William Toh Ah Wah, Managing Director (left), at the 2009 British American Tobacco Malaysia Foundation Scholarship Awards Ceremony.



### **relieving the burden of starting up at universities**

The British American Tobacco Malaysia Foundation and the National Kenaf and Tobacco Board collaborated for the seventh year running in the Higher Education Starter Kit (HESK) programme, an initiative that was founded with the objective of awarding monetary aid to children from the tobacco growing communities in Malaysia to help them meet the start-up costs of entering university or college.

In 2009, approximately 300 students were awarded with the HESK at a total of RM214,000, an amount that was funded equally by the British American Tobacco Malaysia Foundation and the National Kenaf and Tobacco Board. Recipients of the HESK were awarded with RM500 for diploma courses while those pursuing degree courses were awarded with RM700.

### **promoting volunteerism among employees**

Since its inception in 2007, the Employee Volunteer Programme (EVP) has spurred the interests and heartfelt participation of hundreds of employees in British American Tobacco Malaysia, all dedicated towards making a difference to the communities in which the Company operates in.

In 2009, the EVP took on a broader approach, opening participation of its events, for the first time, to family members in addition to adding its focus towards environmental conservation.

In April 2009, 48 employees spent half a day at the Forest Reserve Institute of Malaysia (FRIM) planting approximately 150 Karas trees (also known as Gaharu trees). The trees, when fully matured, will be used by the research team in FRIM for environmental studies.

In July 2009, 30 employees took the residents of Caring Old Folks Home in Kajang for a day out in Putrajaya. All 39 senior citizens went for an hour-long cruise on Putrajaya Lake after which they were treated to lunch and a special "cha-cha" dancing session.







A pilot collaboration with our global information technology shared services provider, British American Tobacco Group Service Delivery (GSD), was held in October 2009 where our employees joined 30 GSD employees to help clean the Kanching Waterfalls in Rawang. The volunteers collected rubbish which was later sent for recycling.

### rebuilding the lives of those affected by natural disasters

As part of the Company's Corporate Social Investment initiative, we believe in supporting communities that have been devastated by natural catastrophes both locally and regionally to alleviate the burden of those affected.

In March 2009, heavy rain and flash floods destroyed close to 2,000 tobacco farmers' crops in Kelantan and Terengganu with an estimated income loss up to RM23 million. The Company provided financial aid to replant the crops of the tobacco farmers at a cost of approximately RM10 million. Working with the National Kenaf and Tobacco Board, constant monitoring of the development of the replanting was undertaken to ensure the sustainable growth of the crops and improved livelihoods of the tobacco growing community.

Later in the year, employees extended a helping hand to the Padang community in Indonesia who suffered losses from the earthquake through a donation collection which was organised by the Company's in-house Sports Club. The proceeds were promptly forwarded to our counterparts in Indonesia for disbursement to those in need.



**1** Employees standing proud after spending half a day at FRIM planting trees.

**2** Employees spending time with the residents of Caring Old Folks home in Putrajaya.

**3** Christine Lee, Corporate and Legal Affairs Director (left), Y.B. Senator A Kohilan Pillay, former Deputy Minister of Plantation Industries and Commodities (centre) and Dato' Chan Choon Ngai, Operations Director, inspecting the destroyed tobacco farmers' crops.



**Maxine Lim**  
Management Trainee  
Corporate and Regulatory Affairs

**Maxine is a regular participant of the Employee Volunteer Programme (EVP) activities and in 2009 she participated in the tree-planting initiative and also spent time with residents from Caring Old Folks Home.**

"I find that the Company's EVP provides a fantastic opportunity for employees to go out and do our part in helping the community. I believe that community activities is not just about giving monetary aid to the needy, and in the EVP activities I participated in, they were much more than that. It is also about spending time with them and putting a smile on their faces!"

For the first EVP activity this year, 48 of us toiled under the hot sun to plant trees at FRIM. The sight of an entire field of saplings after a hard day's work truly filled us with pride.

I am glad that I am a part of an organisation to make a difference and I look forward to participating in next year's EVP activities."



## Workplace Pillar

Our employees are our greatest asset and for 2009, we continued to provide our employees with the right workplace culture that allows them to maximise their full potential.

### engaging our employees

British American Tobacco Malaysia believes that engaging employees at every level of the business is critical to achieving our business results and delivering the Company's strategy. Various communication channels such as the Biz Update (employee town hall sessions), functional team talks, internal newsletter and daily updates in the internal employee portal were used to communicate a clear line of sight of the Company's goals and objectives to every employee.

### providing a better working environment for our employees

In 2009, our office premises and cafeteria in Petaling Jaya underwent a major renovation. The office premises were renovated to provide better working space for our employees and our cafeteria was transformed into a state-of-the-art dining facility. The complete makeover of our office premises and cafeteria was part and parcel of the Company's continuous drive to provide the best working environment for its employees.

### offering compelling proposition to our employees

In ensuring that we build a winning organisation with a sustainable talent pipeline, the Company made efforts to improve on all areas of its compelling proposition to employees which are as below:

- a reward structure that pays competitively for performance
- strong career development opportunities
- robust talent development programmes
- great working environment
- emphasis on work life balance as well as employees' well being

With the above, we truly believe we have a strong and clearly differentiated reputation as Best Employer in Malaysia.

Further elaboration on these areas can be found in our *Winning Organisation* section of this Annual Report.

### best employer model



1

Biz Update sessions kept employees updated and informed.



2

Our refurbished cafeteria provided a better dining environment for employees.





## Environment Pillar

We recognise that our operations have an impact on the environment and we believe it is our responsibility to reduce its impact in a world with finite natural resources and where climate change is a concern. Our 2009 commitment was demonstrated by adhering to high standards of environmental protection and principles of sustainable development.

### managing our operations responsibly

British American Tobacco Malaysia recognises Quality, Environment, Health and Safety as among the key elements that determine our leadership and sustainability in our business operations. As such, an integrated management system was formulated and implemented by our fully-owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn. Bhd. to achieve higher productivity and quality standards among employees whilst minimising environment, health and safety risks.

Testament to the international standards that we continue to adhere to in this system was the continued certification since 2003 of the following international standards by external auditors, Lloyds' Register Quality Assurance in October 2009:

- ISO 9001:2008 for Quality Management System
- ISO 14001:2004 for Environment Management System
- OHSAS 18001:2007 for Occupational Health and Safety Management System

The Company also successfully migrated its ISO 9001:2008 certification for quality management system from the 2000 version to the concurrent 2008 version, exemplifying the completeness and robustness of its integrated management system.

### continuous enhancement of environmental practices

We believe in continuously enhancing and improving our environmental practices to achieve world-class standards in environmental performance. Our continued efforts include the enhancement of the Effluent Treatment Plant (ETP) with the installation of an additional Ultrafilter to comply with stringent corporate standards. In addition, the final discharge water from the ETP would be put through Ultrafilter process to be reused for gardening and generic cleaning.

The Company has also implemented several initiatives to reduce water and electricity consumption such as the installation of waterless urinals and motion sensor systems in all the toilets within the Company's premises, installation of a lighting saver system in the Dry Ice Expanded Tobacco (DIET) plant and the replacement of an air compressor in the factory to a more energy-efficient unit. In addition, two units of economizers have also been installed into our boilers to recover waste heat and reduce fossil fuel consumption. All our boilers have been using natural gas instead of diesel since 2005.

We have also taken steps to strengthen our employees' awareness and participation in recycling by allocating recycling bins for paper, plastic and aluminium at key locations within the Company's premises. An added initiative towards recycling is the placement of a water catchment tank located in the Company's premises to collect rainwater and subsequently re-use it for gardening purposes.



1 Additional Ultrafilter installed for the ETP.

2 New air compressor unit installed to achieve higher energy efficiency.





The Company has also recorded reductions in its total waste and will continue to strive towards conducive waste management. Below is a summary of our achievements thus far:

Total Waste for 2006, 2007, 2008 and 2009

Year	Total Waste
2006	4,226 tonnes
2007	2,298 tonnes
2008	1,957 tonnes
2009	1,949 tonnes

### environment, health and safety mentoring programme

The Environment, Health and Safety (EHS) Mentoring Programme is a three-year programme that was developed with the objective of benchmarking our key business partners' EHS standards against ours and to share best practices.

Continuing from the first phase success in this programme, two of our key business partners – AMB Packaging and MISC Logistics, are currently undergoing the programme which commenced in 2008 as we share know-how and experiences in EHS best practices. Baseline audits have been conducted and the results will be used to benchmark continuous improvements in future annual audits.

### reducing paper usage

In August 2009, the Company embarked on a company wide paper conservation initiative aimed not only at conserving paper usage, but to also create awareness among employees on environmental conservation.



British American Tobacco Malaysia employees joined other volunteers to clean the beach as part of a biodiversity conservation programme.

A 'Green Champion' was appointed within each department to lead the cause and achieve agreed paper conservation targets. Several initiatives were implemented to boost awareness and participation which included e-mail blasts to all employees on ways to conserve paper and where possible, printers were set to default double-sided printing in addition to being set to print at EconoMode (lighter ink tone) to save printing ink and toner.

As an added incentive, employees were encouraged to submit their ideas on ways to conserve paper through our Continuous Improvement Kaizen (CI-Kaizen) intranet portal, of which when validated, the employee would be awarded with CI-Kaizen points (please refer to page 52 on CI-Kaizen programme in the Productivity section of this Annual Report).

To date, a total of 585,098 sheets of paper which is equivalent to 6.6 football fields of paper have been successfully reduced throughout the Company based against initial targets that were set. The paper conservation initiative will continue in 2010 with periodic checks on its results.

### embedding awareness on biodiversity

In August 2009, four of our employees were selected to take part in an annual biodiversity programme called the Borneo Programme in the Danum Valley Conservation Area and the Malua Forest Reserve, Sabah to learn about the importance of biodiversity and how they can make a difference to protect it.

Upon their return, one of the participants was awarded a grant of £1,500 from the British American Tobacco Biodiversity Partnership to start his own biodiversity programme – a challenge which the participant promptly embarked on. The participant's programme centred on creating awareness on marine biodiversity and its environment, while directly contributing to its conservation through a beach cleanup and coral reef survey data collection which was conducted to assess the health of the corals. A total of six employees from British American Tobacco Malaysia participated in this conservation programme which took place in Pulau Tinggi, Johor in October 2009.

In addition, the Company also launched the Biodiversity Online Learning Module in June 2009. A total of 66 employees undertook the module which provided insights into the importance of biodiversity and how an individual could make a difference to protecting it. The module is expected to be launched to all other employees in 2010.



## carbon positive business

British American Tobacco Malaysia's afforestation programme was initiated in 2002 to demonstrate its commitment of achieving an environmentally sustainable business operation. To date, 6,000 hectares with various species of trees have been planted at Forest Management Unit No. 4, in Ulu Tungud, Sabah, which is equivalent to approximately 8,219 football fields and the sequestration of 229,020 tonnes of carbon dioxide per annum.

An external third party auditor, SGS Forestry, also conducts annual checks to verify the net hectareage of surviving trees and its growth rate. In addition, our afforestation programme partner, TSH Resources Berhad carries out constant monitoring and maintenance of the trees planted.

In 2009, British American Tobacco Malaysia's carbon dioxide emission was 29,940 tonnes and based on current business projections, British American Tobacco Malaysia is currently running an operation that is carbon positive until 2024. Moving forward, we will continue to sustain this programme and monitor its progress.

## taking a stand against global warming

On 28 March 2009, British American Tobacco Malaysia and its employees joined millions of people around the world to raise awareness on climate change by participating in Earth Hour.

All non-essential lightings in our Petaling Jaya premises were switched off for one hour from 8.30 pm to 9.30 pm in solidarity of the cause. In addition, a total of 603 employees throughout the Company pledged their commitment to observe the lights out in their homes during Earth Hour.

The Company looks forward to once again participating in this significant event in 2010 and to seek increased participation from our employees.



**1** Carbon positive business through afforestation programme.

**2** Our afforestation programme partner, TSH Resources Bhd. carried out constant monitoring and maintenance of the trees planted.



**Michael Tan**  
Brand Executive  
Marketing

Michael was a participant in the 2009 Borneo Programme, where he underwent 10 challenging days in the jungles of Sabah to learn more about biodiversity. Upon his return, he was awarded a grant of £1,500 from the British American Tobacco Biodiversity Partnership to start his own biodiversity programme.

"Overall I believe the Borneo Programme has rewarded me with the knowledge and most importantly the appreciation of biodiversity, rainforests and its role, ecosystem services and conservation efforts that are in place. I am also thankful for the opportunity to start my own local biodiversity programme on "Preserving Our Reefs and its Biodiversity" and I believe the programme has managed to spread awareness on marine biodiversity and its environment to the participants.

After participating in these two biodiversity initiatives, I am now able to see the relevance of biodiversity in my personal and professional life and I am truly inspired to continue sharing biodiversity awareness with my colleagues and friends".





## Marketplace Pillar

Illicit cigarettes remain a key concern to both the tobacco industry and the Government. In 2009, we continued to demonstrate our commitment in addressing this through various initiatives to work hand in hand with our stakeholders to address the issue of illicit cigarettes in Malaysia.

The latest Illicit Cigarette Study conducted by the Confederation of Malaysian Tobacco Manufacturers (CMTM) revealed that illicit trade has risen to 38.7%. This staggering level continues to impact the volumes of the legal cigarette industry and also the Government, as huge annual tax revenue is lost. If left unchecked, illicit trade will continue to bring greater adverse impact.

To address this, British American Tobacco Malaysia has continually engaged its stakeholders via dialogues and has undertaken various initiatives to address this issue.

### combating illicit cigarettes in the market

In 2009, British American Tobacco Malaysia, via CMTM, worked with the Royal Malaysian Customs (RMC) as well as key retail associations to roll out programmes aimed at creating awareness on the severity of the issue in Malaysia such as distribution of information leaflets in Bahasa Malaysia and Chinese to about 90,000 retailers nationwide. The leaflets explained the enforcement activities undertaken by the enforcement agencies, laws and penalties related to illicit cigarette trade as well as key indicators of genuine cigarettes.

There were also retailer roadshows and dialogues organised by CMTM together with local enforcement agencies and Lembah Sari Sdn. Bhd. (the supplier of security ink and tax stamps) to engage with retailers in illicit hotspot areas to provide information on the various security features found on legal cigarette packs and to highlight laws and penalties of selling illicit cigarettes.

British American Tobacco Malaysia also proactively engaged various law enforcement agencies which included the RMC, Marine Police, Ministry of Domestic Trade Cooperative and Consumerism and Malaysian Maritime Enforcement Agency through dialogues to create awareness of the illicit trade situation and methods to identify key illicit brands in various regions.

We remain committed to do everything we reasonably can to work with our stakeholders to address this issue and moving forward in 2010, we will continue to focus on addressing this issue.

### regulatory developments in 2009

British American Tobacco Malaysia agrees that tobacco products should be regulated as we acknowledge that the use of tobacco products poses real and serious risks to health. However, we believe that regulation needs to be balanced to meet both social and commercial objectives.

There were numerous regulatory developments last year that saw several amendments to the Control of Tobacco Product Regulations 2004 which were announced in 2008 being fully implemented in 2009, in addition to further regulatory requirements that were introduced in 2009.

**1**  
Roadshows and dialogues were held to engage retailers and provide information on matters related to illicit cigarettes.



**2**  
Information leaflets that were distributed to about 90,000 retailers nationwide.





The 2008 regulatory amendments to the Control of Tobacco Product Regulations 2004 which took effect in 2009 were:

- a. The labeling of tobacco products on 1 June 2009 as follows:
  - pictorial health warnings on 40% of the front of a pack and carton and 60% of the back of a pack and carton
  - further textual warnings and/or labeling requirements on the cigarette packs:
    1. Textual health warning on the side panel of cigarette packs and cartons: *'Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan';*
    2. Number of sticks per pack and number of packs per carton;
    3. Name and address of manufacturer or importer;
    4. Textual statement: *'Dilarang Jual Kepada Orang Bawah Umur 18 Tahun';* and
    5. Manufacturing date (Day/Month/Year).
- b. Restrictions on the use of descriptors on cigarette packs whereby words or expressions such as "light", "ultra light", "mild", "cool", "extra" and "low-tar" were no longer permitted. This restriction included any words, terms or descriptors that have similar meanings to the above which creates a false or erroneous impression that a particular tobacco product is less harmful than other tobacco products.

The regulatory amendments in 2009 to the Control of Tobacco Product Regulations 2004 were:

- With effect from 28 May 2009, any tobacco product is not to be sold together with any non-tobacco product or another tobacco product.
- With effect from 1 January 2010 and based on the current tax structure, a minimum price of 32 cents per stick which means that for a pack of 20 sticks, its minimum price would be RM6.40 per pack. The minimum price will be adjusted according to any future changes in tax structure. All retailers are also required to display prominently at the counters or where cigarettes are sold, a minimum price notice.

- All manufacturers and importers must declare the retail selling prices (RSP) of their tobacco products within 14 days from 1 January 2010 to the Ministry of Health. Any adjustments to the RSP of any new tobacco product introduced after 1 January 2010 must also be declared within 14 days prior to its introduction.
- Restricted price discounting on tobacco products as follows:
  1. Price discounting should not be more than 5% from the RSP submitted to the Ministry of Health;
  2. Any price discounting should not exceed three times per company per year;
  3. Each discounting period should not exceed 30 days;
  4. Furthermore, any adjustments to RSP cannot be accompanied by promotional words either on pack or at point of sale or display; and
  5. Manufacturers or importers must also declare any revision to their RSP caused by excise or tax increases.

Finally, the Government has announced that with effect from 1 June 2010, all packs less than 20 sticks will no longer be allowed for sale in the market.

## adhering to local laws and British American Tobacco Group's International Marketing Standards 2

As well as complying with all local laws, British American Tobacco Malaysia has been guided by a clear set of internal marketing standards, known as the International Marketing Standards 2 (IMS 2) that details guidelines on all aspects of tobacco marketing. Central to the IMS 2 is our long held commitment to ensuring that no marketing activity is directed at, or particularly appeals to, youth.

To ensure compliance to local laws and this internal marketing standards, British American Tobacco Malaysia developed a process to require consultation of all marketing activities with the Legal and Regulatory Affairs department in ensuring adherence to local legal requirements and IMS 2.



**Victor Leow**  
Brand Manager  
Marketing

Victor participated in the International Marketing Standard 2 (IMS 2) refresher training workshop in September 2009 which is an annual training session aimed at providing a refresher to relevant employees on the British American Tobacco Group's IMS 2 and also updates on local tobacco regulations.

"I found the IMS 2 training session highly applicable because it keeps me informed every year on the regulatory developments related to tobacco control.

As with any other heavily regulated industry, working with tobacco naturally means that there needs to be extra awareness of our responsibilities, particularly as the market leader in the industry.

The training session made our work both more effective and efficient because everyone is aligned on what can and cannot be done. More importantly compliance with legal and IMS 2 requirements ensures that our products are marketed in a responsible manner."



### global reporting initiative (GRI) indicators

British American Tobacco Malaysia believes in transparency and accountability in its reporting to benchmark its organisational proficiency in the aspects of economic, environmental and social performance.

To achieve this, the Company has taken the initiative to include selected Global Reporting Initiative (GRI) Indicators (G3) in this report to provide more comprehensive and concise information. While more traditionally used for Sustainability Reporting, British American Tobacco Malaysia is encouraged to take the lead in disclosing the indicators as they form an integral part of the GRI Reporting Guidelines and this is in line with the GRI vision whereby the GRI Reporting Guidelines are recommended for organisations to use as a basis for their annual reporting.

For more information on the Global Reporting Initiative, please log on to [www.globalreporting.org](http://www.globalreporting.org)

GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	<p>Direct economic value generated (Revenues) – RM3,928,891,000</p> <p>Economic value distributed:</p> <p>Operating costs – RM977,678,000</p> <p>Employee wages and benefits – RM127,757,000</p> <p>Payment to providers of capital – RM673,851,000</p> <p>Payment to government in the form of taxes – RM2,075,872,000</p> <p>Community investment – RM800,000</p> <p>Economic value retained: RM72,933,000</p>
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	British American Tobacco Malaysia has continually implemented measures to reduce its business environment footprint by adopting a multi-pronged approach which encompassed changing employees' behaviour, investing in new technology, improving product designs and practising voluntary carbon off-set through its Afforestation Programme located in FMU No.4, in Ulu Tungud Sabah.
EC3	Coverage of the organisation's defined benefit plan obligations	British American Tobacco Malaysia contributed an additional 4% into the employees account, in excess of the 12% mandatory employer Employees Provident Fund (EPF) contribution. Altogether, British American Tobacco Malaysia contributed 16% to employees' EPF. Employees contribute 8% or 11% to EPF.
EC4	Significant financial assistance from Government	Tax relief: RM3,400,000

## setting the benchmark in transparent and accountable reporting



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	<p>British American Tobacco Malaysia procured from the most competitive supplier offering the highest product quality, regardless of whether it was a local or overseas supplier.</p> <p>British American Tobacco Malaysia practices the Business Enabler Survey Tool (BEST) to select its suppliers. The top 90% of vendors (by volume) were all surveyed using BEST, which covers management policies such as education and training, competency and technological enhancement, safety and regulatory compliances, business ethics and environment responsibility.</p> <p>The proportion of spending on locally based suppliers in 2009 was 66% against 71% in 2008.</p>
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	<p>British American Tobacco Malaysia hired the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the "Top Team" consists of 71% local hire.</p> <p>Formula <math>(5 \div 7) \times 100\% = 71\%</math></p>
EC8	Development and impact of infra-structure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	<p>Please refer to page 56 on the British American Tobacco Malaysia Foundation which encompass the Higher Education Starter Kit (HESK), Foundation Scholarships and Employee Volunteer Programme (EVP).</p>
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	<p>A total of 21 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2009 and were ready to join the highly skilled workforce. In comparison, a total of 23 British American Tobacco Malaysia Foundation Scholarship recipients graduated in 2008. The small reduction in graduates was due to more recipients of the Foundation Scholarships pursuing longer duration courses.</p>
EN1	Materials used by weight or volume	<p>Total materials: <b>20,707 tonnes</b></p> <p>Non-renewable materials: <b>4,382 tonnes</b> (Parts, fuels, cleaning materials, chemicals and processing aids)</p> <p>Direct materials: <b>16,326 tonnes</b> (Leaf, wrapping, packaging, filter and flavouring)</p> <p>Normalised: 1.41 tonnes/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded a 32% reduction in total materials in comparison to 2008. This is mainly due to a reduction in usage of non-renewable materials (4,473 tonnes in 2008) and direct materials (25,847 in 2008).</p>





GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EN3	Direct energy consumption by primary energy source	<p>Total: <b>232,888 Gigajoules</b></p> <p>Non-renewable: <b>232,888 Gigajoules</b> (Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</p> <p>Renewable: <b>0 Gigajoules</b></p> <p>Normalised: 15.8 Gigajoules/million cigarette equivalent</p> <p>An increase of 0.7% in direct energy consumption was recorded in 2009 from 231,183 Gigajoules in 2008. This was due to the opening of an additional office in Johor Bahru in 2009.</p>
EN4	Indirect energy consumption by primary source	<p>Total: <b>295,053 Gigajoules</b></p> <p>Non-renewable: <b>Electricity – 286,556 Gigajoules</b></p> <p>Renewable: <b>8,497 Gigajoules</b></p> <p>Normalised: 20.1 Gigajoules/million cigarette equivalent</p> <p>An increase of 3.3% in indirect energy consumption was recorded in 2009 from 285,610 Gigajoules in 2008. This was due to an increase of trade marketing vehicles and a one-off trip to Macau for employees in November.</p>
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	<p><b>British American Tobacco Malaysia initiatives:</b></p> <ol style="list-style-type: none"> <li>1. Replacement of new air compressor (in October 09)</li> <li>2. Installation of Economizer for Boiler (in November 09)</li> <li>3. Installation of lighting energy saver in DIET Plant (in November 09)</li> </ol> <p><b>Estimated recorded reductions:</b></p> <ol style="list-style-type: none"> <li>1. Air compressor – monthly savings of 10.8GJ/3,000 kWh monthly</li> <li>2. Boiler Economizer – monthly savings of 325.6GJ/731.4 mmbtu monthly</li> <li>3. Lighting energy saver – monthly savings of 29GJ/8,054 kWh monthly</li> </ol>
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Please refer to GRI G3 Reference EN6.
EN8	Total water withdrawal by source	<p>Total: <b>260,237 cubic metres</b></p> <p>Normalised: 17.7 cubic metres/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded a 0.12% reduction in water withdrawal in comparison to 2008 (260,575 cubic metres) as a result of water recycling and conservation initiatives.</p>
EN9	Water sources significantly affected by withdrawal of water	British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the 6 sites designated as Ramsar List of Wetlands of International Importance in Malaysia.
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high bio-diversity value outside protected areas	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high bio-diversity value outside protected areas.





GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EN12	Description of significant impacts of activities, products, and services on bio-diversity in protected areas and areas of high biodiversity value outside protected areas	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high bio-diversity value outside protected areas.
EN13	Habitats protected or restored	<p>British American Tobacco Malaysia participated in an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. For the year 2009, a total of 178 hectares of various species of trees were planted, bringing the total hectareage planted to date to 6,000 hectares – the equivalent of 8,219 football fields and the sequestration of 229,020 tonnes of carbon dioxide.</p> <p>*Size of 1 football field is approximately 0.73 hectares.</p> <p>The project partner for this afforestation programme was TSH Resources Berhad.</p>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Please refer to page 59 on Continuous Enhancement of Environmental Practices.
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high bio-diversity value outside protected areas.
EN16	Total direct and indirect green-house gas emissions by weight	<p><b>Total: 29,940 tonnes of carbon dioxide</b></p> <p>Normalised: 2.04 tonne/million cigarette equivalent</p> <p>An increase of 1.6% in direct and indirect greenhouse gas emissions was recorded in 2009 from 29,459 tonnes of carbon dioxide in 2008. This was due to a one-off trip to Macau for employees in November.</p>
EN17	Other relevant indirect green-house gas emissions by weight	<p><b>Total: 20,402 tonnes of carbon dioxide</b></p> <p>An increase of 3.1% in indirect greenhouse gas emissions was recorded in 2009 from 19,789 tonnes of carbon dioxide in 2008. This was due to a one-off trip to Macau for employees in November.</p>
EN18	Initiatives to reduce green-house gas emissions and reductions achieved	Please refer to GRI G3 Reference EN6.
EN19	Emissions of ozone-depleting substances by weight	All British American Tobacco Malaysia air conditioning equipments are chlorofluorocarbon (CFC) free.
EN21	Total water discharge by quality and destination	<p>British American Tobacco Malaysia facilities discharged water through these routes:</p> <ol style="list-style-type: none"> <li>1. Public waterways (18,969 cubic metres) after the water that was used in factory operations has been treated at our effluent treatment plant to stringent corporate standards.</li> <li>2. Sewage system, water that has been used for amenities, such as toilets and office pantry (241,268 cubic metres).</li> </ol>



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EN22	Total weight of waste by type and disposal method	<p>2008 : Hazardous Waste – 32 tonnes : Non-Hazardous Waste – 1925 tonnes</p> <p>2009 : Hazardous Waste – 34 tonnes : Non-Hazardous Waste – 1915 tonnes</p> <p>All our hazardous wastes are sent to Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan for disposal while a majority of our non-hazardous wastes are sent to Recycle Energy Malaysia in Semenyih for conversion to refuse derived fuel pellets. The remainder of our non-hazardous wastes which are not sent to Semenyih are recycled (e.g. paper, plastic and metal materials).</p>
EN23	Total number and volume of significant spills	British American Tobacco Malaysia did not have any significant spills in 2009.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	<p>Total: 34 tonnes</p> <p>All hazardous wastes were sent to Government approved site (Kualiti Alam Facility) for disposal.</p>
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	British American Tobacco Malaysia treated water that was used in factory operations to meet stringent corporate standards before discharging it into public waterways which are located outside water catchment zones and other protected areas.
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	<p>British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its business environment footprint during the year through the implementation of initiatives in the areas of process and practices:</p> <ul style="list-style-type: none"> <li>a. Water usage reduced by 0.13% from 260,575 cubic metres in 2008 to 260,237 cubic metres in 2009;</li> <li>b. Waste generated reduced by 0.41% from 1,957 tonnes in 2008 to 1,949 tonnes in 2009;</li> <li>c. Recycling of wastes improved by 0.28% from 96.44% of total wastes generated in 2008 to 96.72% of total wastes generated in 2009.</li> </ul>
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	British American Tobacco Malaysia was in full compliance with environmental laws and regulations.
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	<p>A total of 12,454 Gigajoules of indirect energy were consumed due to business-related travel. This was an increase of 62% (against 7,673 Gigajoules in 2008) due to a one-off trip to Macau for employees in November.</p> <p>A total of 11,476 Gigajoules of indirect energy were consumed due to freight. This was a decrease of 25% (against 15,449 Gigajoules in 2008).</p>
EN30	Total environmental protection expenditures and investments by type	<p>Total: RM996,435</p> <p>A total of RM400,000 was spent on the replacement of the air compressor, while RM150,000 was spent on the installation of 2 units of economizers for factory boilers and RM25,000 for the replacement of Multi-Level Story Building Air Handling Unit (AHU).</p>
LA1	Total workforce by employment type, employment contract, and region	<p>Total Workforce: 1,656</p> <p><u>Employment type</u></p> <p>Permanent/Full-time: 1,346</p> <ul style="list-style-type: none"> <li>– Management: 647</li> <li>– Non-Management: 699</li> </ul> <p>Temporary/Consultants/Contracts: 310</p> <p>British American Tobacco Malaysia's workforce broken down by regions:</p> <ul style="list-style-type: none"> <li>a. North = 286</li> <li>b. South = 243</li> <li>c. East = 133</li> <li>d. East Malaysia = 111</li> <li>e. Central = 883</li> </ul>
LA2	Total number and rate of employee turnover by age group, gender and region	<p><u>As at 31 December 2009:</u></p> <p>The total number of employees who left employment in 2009 by age group:</p> <ul style="list-style-type: none"> <li>a. less than 30 years old = 84</li> <li>b. 30-50 years old = 136</li> <li>c. above 50 years old = 17</li> </ul> <p>The total number of employees who left employment in 2009 by gender:</p> <ul style="list-style-type: none"> <li>a. Male = 188</li> <li>b. Female = 49</li> </ul> <p>The total number of employees who left employment in 2009 by region:</p> <ul style="list-style-type: none"> <li>a. East = 6</li> <li>b. North = 32</li> <li>c. South = 26</li> <li>d. East Malaysia = 10</li> <li>e. Central = 163</li> </ul>



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
<b>LA3</b>	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	<p>The following benefits were provided to British American Tobacco Malaysia's full-time management and non-management employees:</p> <ul style="list-style-type: none"> <li>a. medical benefits</li> <li>b. cigarette ration</li> <li>c. free meals</li> <li>d. annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave</li> <li>e. bonus</li> <li>f. Group Personal Accident Insurance</li> <li>g. Group Life Term Insurance Scheme</li> <li>h. company vehicle and monthly cash allowance (depending on grade)</li> <li>i. corporate club membership (depending on grade)</li> <li>j. housing loan interest subsidy (depending on grade)</li> <li>k. car loan interest subsidy (depending on grade)</li> </ul>
<b>LA4</b>	Percentage of employees covered by collective bargaining agreements	<p>The percentage of total employees covered by collective bargaining agreements is 24%. All eligible employees amounting to 698 non-management staff were covered by the Collective Agreement, effective from 1st July 2004 to 30th June 2007.</p> <p>There was however a decrease of 50 Non-Management employees covered by the Collective Agreement due to a Voluntary Separation Scheme exercise.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that British American Tobacco Employees Union (BATEU) could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The ex general secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU.</p> <p>Pending the outcome of the judicial review, the decision of the DGTU stands. Hence, employees from British American Tobacco Malaysia's subsidiary companies, TIM and Commercial Marketers and Distributors Sdn. Bhd. (CMD) cannot be represented by BATEU and would have to form their respective unions. CMD has applied for the formation of its union and is currently awaiting its registration.</p> <p>Notwithstanding the DGTU's decision, all the terms and conditions of the current Collective Agreement have been honoured by British American Tobacco (Malaysia) Berhad and duly extended to the employees of TIM and CMD on a Personal To Holder (PTH) basis pending their respective new Collective Agreements.</p>
<b>LA5</b>	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	<p>The minimum notice period for retrenchment was not less than 3 months. The notice period was specified in Article 61 of the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that BATEU could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The ex-general secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU.</p>



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LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	<p>100% of the total workforce was represented by a Senior Manager representing each function in our Corporate Environmental Health and Safety Committee.</p> <p>6 representatives (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>																																												
LA7	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	<p>BAT Malaysia lost workday case injury incidence rate (LWCIR) for 2009 was 3 lost workday case per 2,755,737 (Estimated based on 11 months in 2009) manhours worked by its employees.</p> <p>Three lost workday case (LWC) accidents were reported during the year of which two of them were accidents involving employees driving company vehicles. The third lost workday case accident, which was an industrial accident, occurred in the Petaling Jaya factory.</p> <p>By comparison, in 2008 there were 2 lost workday cases reported during the year of which one of them was an accident involving an employee driving a company vehicle and the other being an industrial accident which occurred in the Petaling Jaya factory.</p>																																												
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	<p><b>Assistance Program</b></p> <table><tr><th rowspan="2">Programme recipients</th><th colspan="2">Education/Training</th><th colspan="2">Counselling</th><th colspan="2">Prevention/Risk Control</th><th colspan="2">Treatment</th></tr><tr><th>Yes</th><th>No</th><th>Yes</th><th>No</th><th>Yes</th><th>No</th><th>Yes</th><th>No</th></tr><tr><td>Workers</td><td>✓</td><td></td><td>✓</td><td></td><td>✓</td><td></td><td>✓</td><td></td></tr><tr><td>Workers’ families</td><td></td><td>✓</td><td>✓</td><td></td><td>✓</td><td></td><td>✓</td><td></td></tr><tr><td>Community members</td><td></td><td>✓</td><td></td><td>✓</td><td></td><td>✓</td><td>—</td><td>—</td></tr></table> <p><b>For Workers:</b></p> <p><b>Education/Training</b></p> <p>a. First Aid CPR Training</p> <p>b. Ergonomics</p> <p>c. Noise Conservation Programme</p> <p>d. Cough Etiquettes and Importance of Hand Washing</p> <p><b>Counselling</b></p> <p>a. Chronic Diseases</p> <p>b. Sickness Absenteeism</p> <p>c. Overseas Travel</p>	Programme recipients	Education/Training		Counselling		Prevention/Risk Control		Treatment		Yes	No	Yes	No	Yes	No	Yes	No	Workers	✓		✓		✓		✓		Workers’ families		✓	✓		✓		✓		Community members		✓		✓		✓	—	—
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Community members		✓		✓		✓	—	—																																						





GRI CODE	ISSUE AREA	RESPONSE FOR 2009
		<p><b>Prevention/Risk Control</b></p> <ul style="list-style-type: none"> <li>a. Immunisations</li> <li>b. Updates on Infectious Diseases via local intranet portal, Notice Boards, E-mail</li> <li>c. Women Wellness Programmes</li> <li>d. Routine – Annual/Biennial Medical Examinations</li> <li>e. Coronary Care</li> <li>f. Statutory Medical Examinations</li> <li>g. Creating Awareness on HIV/AIDS</li> <li>h. Vaccinations against Hepatitis A, Hepatitis B, Influenza, Yellow Fever, Tetanus Toxoid, seasonal flu</li> <li>i. Updates on dengue and haze alert</li> <li>j. Provision of hand sanitizers and face masks and notice of precautions for overseas travel in light of the Influenza A(H1N1) epidemic</li> <li>k. Chemical Hazardous Regulation Act Surveillance (CHRA)</li> </ul> <p><b>Treatment</b></p> <ul style="list-style-type: none"> <li>a. Medications for Daily Sickness Report</li> <li>b. Medications for Chronic Diseases</li> <li>c. Investigations</li> <li>d. Referral to Specialists</li> </ul> <p><b>For Workers' Families:</b></p> <p><b>Education/Training</b></p> <ul style="list-style-type: none"> <li>a. On adhoc basis</li> </ul> <p><b>Counselling</b></p> <ul style="list-style-type: none"> <li>a. On adhoc basis</li> <li>b. On confidentiality basis</li> </ul> <p><b>Prevention/Risk Control</b></p> <ul style="list-style-type: none"> <li>a. Vaccination against Bird Flu prevention</li> <li>b. Vaccination against the seasonal flu</li> </ul> <p><b>Treatment</b></p> <ul style="list-style-type: none"> <li>a. Clinic/Hospitalisation</li> <li>b. Medications</li> </ul>
LA9	Health and safety topics covered in formal agreements with trade unions	<p>Environment, health and safety topics were covered in a formal agreement which was specified in various articles contained in the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007. Articles 20-23 cover employees maximum working hours, Article 27, 30-31 cover employees' leave entitlement and Article 40 covers employees' entitlement to appropriate personal protective equipment while at work. Article 54 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that BATEU could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The ex-general secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU.</p>



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		<p>Pending the outcome of the judicial review, the decision of the DGTU stands. Hence, employees from British American Tobacco Malaysia's subsidiary companies, TIM and Commercial Marketers and Distributors Sdn. Bhd. (CMD) cannot be represented by BATEU and would have to form their respective unions. CMD has applied for the formation of its union and is currently awaiting its registration.</p> <p>Notwithstanding the DGTU's decision, all the terms and conditions of the current Collective Agreement have been honoured by British American Tobacco Malaysia and duly extended to the employees of TIM and CMD on a Personal To Holder (PTH) basis pending their respective new Collective Agreements.</p>
LA10	Average hours of training per year per employee by employee category	<p><u>Management</u> 5.87 hours</p> <p><u>Management attendee</u> Central programmes: 9.25 hours Functional programmes: Operations – 2.69 hours Marketing – 0 hours</p> <p><u>Non-management</u> 7.12 hours</p> <p><u>Non-management attendee</u> Central programme: 7.88 hours Functional programmes: Operations – 7.12 hours Marketing – 7 hours</p> <p>The central programmes were under the purview of British American Tobacco Malaysia's Human Resources Department and covered all other functions within the Company with the exception of Operations and Marketing, as these two functions conduct their individual functional programmes.</p> <p>However, the Marketing management employee programmes were conducted at a central level in 2009 instead of at a functional level, hence the record of nil for Marketing management employees.</p>
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	<p>Plans for rightsizing were communicated to the Ministry of Human Resource i.e. the Director General of Industrial Relations and Director General of Labour and briefing sessions were conducted to employees communicating the business rationale for rightsizing and the details of an outplacement programme. This programme was a collaboration between British American Tobacco Malaysia and CareerSolutions Asia Sdn. Bhd., which provided counselling to affected employees and carried out a transition skills programme.</p>
LA12	Percentage of employees receiving regular performance and career development reviews	<p>100% of employees, both management and non-management staff, received a formal performance appraisal and career development reviews during the reporting period.</p>



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
<b>LA13</b>	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	<p>The percentage of British American Tobacco Malaysia's Board of Directors by gender: Male = 100% Female = 0%</p> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups: Under 30 years old = 0% 30-50 years old = 14% Over 50 years old = 86%</p> <p>The percentage of employees in British American Tobacco Malaysia by gender: Male = 85% Female = 15%</p> <p>The percentage of employees in British American Tobacco Malaysia by age groups: Under 30 years old = 23% 30-50 years old = 68% Over 50 years old = 9%</p>
<b>LA14</b>	Ratio of basic salary of men to women by employee category	<p>Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set.</p> <p>Male and female Management Trainees were paid equal basic salary.</p>
<b>HR1</b>	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	<p>British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership is not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. The top 90% of vendors (by volume) were all surveyed using BEST.</p> <p>Other significant investments also included the contracts we have with tobacco leaf farmers. Our contracts cover good agricultural practices, appropriate use of agrochemicals, environmental, occupational health and safety and termination of contracts should farmers be employing child labour.</p>
<b>HR2</b>	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Please refer to GRI G3 Reference HR1.
<b>HR4</b>	Total number of incidents of discrimination and actions taken	British American Tobacco Malaysia was in compliance with anti-discrimination laws. We also have a grievance procedure under Article 5 of the Collective Agreement between British American Tobacco (Malaysia) Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007, for non-management employees to escalate matters of discrimination to senior management. In addition, our Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination. Our code of practise on sexual harrassment protects employees from gender discrimination.



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights	In 2009, there were no significant risks in exercising freedom of association or collective bargaining in British American Tobacco Malaysia.
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of child labour, as those involved in cultivation of leaf were not under its direct employment.</p> <p>To mitigate this risk, the Company has gone into an agreement with the local leaf suppliers as part of our Social Responsibility in Tobacco Production (SRTP) to ensure that no child labour was used to perform activities related to tobacco production. Any breach of the terms and conditions of the agreement would result in a cease in supplies to the Company.</p>
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	Please refer to GRI G3 Reference HR6.
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	<p>There was no formalised training specifically on human rights issues provided to security personnel, other than to provide a safe working environment for employees and the need to treat every individual with respect.</p> <p>In 2009, 2 security personnel attended a security programme called the Internal Investigations Techniques.</p>
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of compulsory/forced labour, as as those involved in cultivation of leaf were not under its direct employment.</p> <p>To mitigate this risk, British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> <li>a. equality of opportunity and non-discrimination;</li> <li>b. internal communications and the free flow of ideas;</li> <li>c. worker representation and freedom of association;</li> <li>d. fairness at work and the unacceptability of harassment and bullying;</li> <li>e. do not condone or employ child labour;</li> <li>f. forced or bonded labour is completely unacceptable;</li> <li>g. performance responsibility;</li> <li>h. health, safety and environmental responsibility;</li> <li>i. community contributions and skills development for employees and communities in markets where our companies operate;</li> <li>j. personal development and learning;</li> <li>k. reasonable working hours and family friendly policies;</li> <li>l. fair, clear and competitive remuneration and benefits.</li> </ul>



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
<b>S01</b>	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	British American Tobacco Malaysia aimed to address the social and environmental issues associated with tobacco growing and processing by guiding tobacco farmers on good agricultural practices, the appropriate use of agrochemicals and consideration for environmental, occupational health and safety issues. We were also active in eliminating exploitative child labour and promoting afforestation initiatives.
<b>S02</b>	Percentage and total number of business units analysed for risks related to corruption	Please refer to page 79 on Standards of Business Conduct.
<b>S03</b>	Percentage of employees trained in organisation's anti-corruption policies and procedures	<p>41 personnel underwent induction programmes throughout 2009 and were informed about British American Tobacco Malaysia's Standards of Business Conduct (SOBC) which included information about anti corruption and bribery.</p> <p>The Company's Legal and Business Security personnel also underwent external training workshops on topics such as on the Malaysia Anti-Corruption Act 2009 and the Anti Money Laundering and Anti Terrorism Financing Act 2001.</p> <p>An e-learning course on the SOBC (called the "Standards of Excellence") was also undertaken by all management personnel in December 2009 to reinforce amongst others, the Company's anti-corruption policies and procedures.</p>
<b>S04</b>	Actions taken in response to incidents of corruption	There were no incidences of corruption reported to British American Tobacco Malaysia.
<b>S05</b>	Public policy positions and participation in public policy development and lobbying	<p>As a responsible company, British American Tobacco Malaysia believes that we can contribute, through information and ideas to help regulators address the key issues surrounding our product.</p> <p>In 2009, we undertook the following:</p> <ul style="list-style-type: none"> <li>• Distribution of information leaflets in Bahasa Malaysia and Chinese to approximately 90,000 retailers nationwide that explained the types of illegal cigarettes, laws and penalties related to illicit tobacco trade as well as key indicators of genuine cigarettes.</li> <li>• Distribution of information leaflets in Bahasa Malaysia, English and Chinese to approximately 90,000 retailers on the requirement for pictorial health warning on cigarette packs and cartons.</li> <li>• Presentation at the Inter Ministerial Task Force and to other Government agencies such as Royal Malaysian Customs on the results of the Illicit Cigarette Survey in Malaysia and the issues affecting the industry.</li> <li>• Discussion with National Kenaf and Tobacco Board on leaf issues, of which the Company's Head of Leaf is a member.</li> </ul> <p>At a global level, these and other issues and our core positions with regards to public policy development can be found on <a href="http://www.bat.com">www.bat.com</a></p>
<b>S07</b>	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	British American Tobacco Malaysia's Standard of Business Conduct (SOBC) embeds the principles of fair competition rules in conducting our business. In addition, BAT Malaysia's Competition Guidelines which was rolled out company wide on 18 June 2009 also ensures that our business activities are not in any manner anti competitive. Internal training on the Competition Guidelines was conducted in July 2009 to all managers within the Company and upcoming trainings in 2010 will be extended to the Sales Force.





GRI CODE	ISSUE AREA	RESPONSE FOR 2009																				
<b>SO8</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia.																				
<b>PR1</b>	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	<p>Please refer to information on smoking and health which can be found on our website at <a href="http://www.bat.com">www.bat.com</a>. Information on tobacco ingredients can be found on <a href="http://www.bat-ingredients.com">www.bat-ingredients.com</a>.</p> <p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004; (Amendment) Regulations 2008; and (Amendment) Regulations 2009.</p> <p>The Company also went into an agreement with the local leaf suppliers as part of the Social Responsibility in Tobacco Production (SRTP) to ensure that there was appropriate utilisation of agrochemicals with respect to the environment and operator safety. Therefore, where agrochemicals were deemed necessary, selection and usage adhered to the relevant British American Tobacco Agrochemical Procedures that included the selection of approved chemicals.</p>																				
<b>PR2</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	<p>British American Tobacco Malaysia's products were in full compliance with the:</p> <ul style="list-style-type: none"> <li>– Control of Tobacco Product Regulations 2004; (Amendment) Regulations 2008; and (Amendment) Regulations 2009 (No. 1).</li> </ul>																				
<b>PR3</b>	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	<table border="1"> <thead> <tr> <th rowspan="2"></th><th colspan="2">2009</th></tr> <tr> <th>Yes</th><th>No</th></tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td><td></td><td>✓</td></tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td><td>✓</td><td></td></tr> <tr> <td>Safe use of the product or service</td><td>✓</td><td></td></tr> <tr> <td>Disposal of the product and environmental/social impacts</td><td></td><td>✓</td></tr> <tr> <td>Other (explain)</td><td>N.A</td><td>N.A</td></tr> </tbody> </table> <p>In 2009, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004; (Amendment) Regulations 2008 which required health warnings and further textual warnings and/or labelling requirements on every cigarette pack; and (Amendment) Regulations 2009 (No. 1) which prohibits tobacco products from being sold together with non-tobacco products and other tobacco products.</p>		2009		Yes	No	The sourcing of components of the product or service		✓	Content, particularly with regard to substances that might produce an environmental or social impact	✓		Safe use of the product or service	✓		Disposal of the product and environmental/social impacts		✓	Other (explain)	N.A	N.A
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Other (explain)	N.A	N.A																				
<b>PR4</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	In 2009, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004; (Amendment) Regulations 2008 which required health warnings and further textual warnings and/or labelling requirements on every cigarette pack; and (Amendment) Regulations 2009 (No. 1) which prohibits tobacco products from being sold together with non-tobacco products and other tobacco products.																				



GRI CODE	ISSUE AREA	RESPONSE FOR 2009
<b>PR6</b>	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	<p>The Control of Tobacco Product Regulations (CTPR) 2004 regulates the tobacco industry in terms of prohibition of tobacco product advertisement, regulation on the sale of tobacco products, labelling and packaging requirements among others.</p> <p>Compliance with the regulations was further enhanced by British American Tobacco Malaysia's adherence to the British American Tobacco International Marketing Standards (IMS) which embodies in detail our commitment to marketing appropriately and only to adult smokers. The Standards aim to 'raise the bar' by establishing a benchmark for the industry worldwide and in some countries they are stricter than local laws.</p> <p>The British American Tobacco International Tobacco Products Marketing Standards were updated on 1 July 2007 (currently IMS 2) and a yearly refresher course is conducted to brief the Marketing Department and their relevant agencies on the Standards.</p>
<b>PR7</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	There were no incidences of non-compliance with regulations concerning marketing communications.
<b>PR8</b>	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	<p>No complaints were received.</p> <p>British American Tobacco Malaysia worked with reputable market research business partners who adhere to the ESOMAR* code of conduct, in which the privacy of respondents' information is strictly protected. This is enshrined in Article 7 of the ICC/ESOMAR International Code of Market and Social Research.</p> <p>* ESOMAR is an industry standard in conducting market research.</p>
<b>PR9</b>	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	<p>British American Tobacco Malaysia's products were in full compliance with the:</p> <ul style="list-style-type: none"> <li>– Control of Tobacco Product Regulations 2004; (Amendment) Regulations 2008; and (Amendment) Regulations 2009 (No. 1).</li> </ul>



Our Group's employees comply with the Standards of Business Conduct (Standards) which form an integral part of our Group's corporate governance. Together with the Statement of Business Principles, it continues to underpin our commitment to high standards of corporate responsibility.

The Standards requires all employees to be committed to operate in accordance with high standards of business integrity and to comply with laws and regulations. Employees must exercise honesty, objectivity and diligence in doing their work and must ensure that the Standards is never compromised for the sake of results.

The Standards is an integral part of the Group's principles of corporate governance and is designed to:

- a. ensure that decisions and judgements made by employees are lawful and comply with high ethical standards;
- b. set a tone and culture for the organisation which will enable it to be regarded as a good corporate citizen;
- c. help employees who are faced with making difficult judgements in the course of doing their work; and
- d. give reassurance to the Group's stakeholders with whom the Group comes into business contact.

The areas covered by the Standards are:

- Conflicts of Interest
- Inside Information and Corporate Opportunity
- Interest in Competing Businesses
- Insider Dealing and Market Abuse
- Bribery and Corruption
- Political Contributions
- Charitable Contributions
- Competition Law
- Price Sensitive Information
- Trade in the Group's Products
- Money Laundering
- Sanctions
- Whistleblowing
- Confidentiality and Information Security
- Entertainment and Gifts
- General Export Guidelines
- Commission Payments
- External Activities
- Protection of Corporate Assets and Misuse of Resources
- Accurate Accounting and Record Keeping

Compliance with the Standards is monitored regularly by the Board of Directors and Audit Committee of the Company. The Legal Department/Company Secretary of the Group is charged with the responsibility of reporting to the Board of Directors on an annual basis the compliance of the Standards by the Group and its employees.

## standards of business conduct



The Company and its Board of Directors recognises the importance of enhancing shareholder value through a sustainable business by maintaining high standards of corporate governance throughout the Group while discharging its duties and responsibilities in managing the business and affairs of the Group.

Throughout the years, the Company and its Board has been resolute in ensuring that the Group's business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct.

The Company's corporate governance structure has been built on the principles and practices stipulated in external requirements such as the Malaysian Code on Corporate Governance (Revised 2007) (Malaysian Code) and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements) and also internal requirements such as the Company's Code of Corporate Governance (BATM Code) and Standards of Business Conduct (Standards).

The BATM Code is formulated based on the principles and best practices set out in the Malaysian Code and developments of globally recognised best governance practices and such principles and best practices are practised throughout the Group.

The Standards governs the conduct of all employees of the Company including the Board of Directors. Examples of provisions in the Standards are, avoiding situations where there are conflicts of interest, interest in competing businesses, prohibition on use of inside information, corporate opportunities, insider dealing, whistle blowing and no corrupt activities. The

Standards was last reviewed and updated by the Board of Directors on 23 April 2009 whereby the responsibility to report to the Board on the annual compliance of the Standards by the Group and its employees was delegated to the Legal Department/Company Secretary of the Company. The Standards will continue to be reviewed from time to time by the Board to ensure that they remain at the forefront of best business practices. The Group and every employee including Directors are expected to live up to the Standards and are required to confirm their commitment and compliance by executing a declaration of compliance annually.

In addition to the Standards and BATM Code, the Company and the Board are also guided by the Group's Statement of Business Principles (Business Principles). The Business Principles cover key issues that underpin Corporate Social Responsibility (CSR) for a multinational business and more particularly, the unique characteristics of a tobacco business. The 3 Business Principles are Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct each of which is supported by a core belief which explains and supports the Business Principles.

Both the Standards and Business Principles are made available to our employees and Directors on our Company's intranet and our corporate website at [www.batmalaysia.com](http://www.batmalaysia.com). The Standards can also be obtained from our Company Secretary.

The Company's Statement of Delegated Authorities also supports good corporate governance and prudent control of risks and investment management. In the Company's Statement of Delegated Authorities, the Board has specifically reserved matters such as establishment of new businesses or factories, annual strategic plan, approval of major capital expenditure, acquisition and disposal of businesses or equity, borrowings and any corporate restructuring, for its decision.

Apart from the Business Principles and Standards, the Company also has in place other internal policies and guidelines to ensure good corporate governance. Such internal policies, standards and guidelines include amongst others the Indirect Procurement Policy (Procurement Policy) which sets out the framework for indirect procurement by the Company. The Procurement Policy outlines the processes

## statement on corporate governance



and procedures involved in the selection of vendors to obtain the best overall value and quality for each amount spent and to ensure timely delivery of goods and services to meet the Group's business requirements. The Tender Committee of the Company which includes Executive Directors on the Board and senior management reviews the recommendation of the stakeholders and approves the tenders submitted after due consideration. The Procurement Policy is also made available to our employees and Directors on our Company's intranet. Aside from the Procurement Policy, other internal control policies, standards and guidelines such as British American Tobacco International Marketing Standards, Employment Principles and the Environment, Health and Safety Policy which the Company abides to in the running of its business can similarly be obtained from our corporate website.

The following awards are the testimony of the Group's commitment to manage its business responsibly amidst a challenging environment for the tobacco industry:

#### *Annual Reporting*

- Consumer Products category in the National Annual Corporate Report Awards (NACRA)

The Company received for the 8th consecutive year, an Industry Excellence in the Consumer Products category at the National Annual Corporate Report Awards (NACRA). The Company had won this award from 2002 up to 2008.

#### *Corporate Social Responsibility*

- Corporate Social Responsibility category in the NACRA

The Company was awarded the Platinum Award for Corporate Social Responsibility (CSR) for the Company's commitments and efforts in operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders.

- The Prime Minister's Hibiscus Award 2008/2009

The Company received a Notable Achievement Award, a recognition from Malaysia's premier environmental awards for the Company's environmental performance and best practices.

- Asian Sustainability Rating

The Company was recognised as one of the top 20 companies in Asia Pacific for sustainability disclosure and the only Malaysian company in the top 20 of 200 companies surveyed by CSR Asia.

- ACCA Malaysia Sustainability Reporting Award 2009

The Company received a Special Mention-Assurance Approach from the ACCA Malaysia Sustainability Reporting Award 2009 for the recognition as 1 of the only 3 companies to have its report externally assured, demonstrating indicators such as independence and impartiality, clarity and scope of assurance, methodology and depth of investigations, disclosure on short comings and recommendations.

#### *Corporate Governance*

- The Malaysian Corporate Governance (MCG) Index 2009

The Company received a Distinction Award in the Malaysian Corporate Governance (MCG) Index 2009 for achievement in practising the highest level of corporate governance. Organised by the Minority Shareholders Watchdog Group (MSWG), the MCG Index 2009 rated the top 100 public listed companies in terms of corporate governance practices including international best practices codes. The Company had been ranked the top 10 companies for 2 consecutive years from 2007 to 2008.

- The Asset's Corporate Governance Awards 2009

The Company was awarded the Gold Corporate Award in The Asset's Corporate Governance Awards 2009. The Asset is a financial business magazine for financial industry in Asia with a high circulation rate within the community of leading corporate and financial decision makers in Asia. The Company had been ranked the top 5 companies for 2 consecutive years from 2007 to 2008.

- 2008 FinanceAsia Awards Poll

The Company was ranked 6th place for the Best Corporate Governance in the FinanceAsia Awards Poll in 2009. FinanceAsia assessed Asian companies on their overall management, corporate governance, investor relations and their commitment to strong dividend payments.

#### *Shareholder Value*

- KPMG/The Edge Shareholder Value Award 2008

The Company was named the overall winner for the 7th consecutive year for its exemplary shareholder value, achieving the highest economic profit per invested capital among all the public listed companies in Malaysia.

The Company was also awarded the sectoral winner under the Consumer Market Category in the KPMG/The Edge Shareholder Value Award 2008.

- 2008 FinanceAsia Awards Poll

The Company was ranked 1st in the Most Committed to Strong Dividend Policy and 4th in the Best Investor Relation in the 2008 FinanceAsia Awards Poll.





## BOARD OF DIRECTORS

### board composition

The Board's composition complies with the requirements mandated by the Listing Requirements and as prescribed by the principles and best practices of the Malaysian Code. As at the date of this Statement, the size and composition of the Board is well balanced in its current constituted state to address any business challenges and to drive the business to greater heights.

The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise. As at 31 December 2009, the Board consists of 7 members, 4 of which are Non-Executive Directors (including the Chairman) and the remaining 3 are Executive Directors. 3 out of 4 Non-Executive Directors are Independent Non-Executive Directors.

As at 31 December 2009, the members of the Board of Directors are as follows:

**Tan Sri Abu Talib bin Othman**

*Independent Non-Executive Director  
(Chairman)*

**Datuk Oh Chong Peng**

*Independent Non-Executive Director*

**Dato' Ahmad Johari bin Tun Abdul Razak**

*Independent Non-Executive Director*

**James Richard Suttie**

*Non-Independent Non-Executive Director*

**William Toh Ah Wah**

*Executive Director (Managing Director)*

**Stephen James Rush**

*Executive Director (Finance Director)*

**Dato' Chan Choon Ngai**

*Executive Director (Operations Director)*

The proportion of Non-Executive Independent Directors (two-third) satisfies the criteria set out in the Listing Requirements.

The Chairman of the Board, Tan Sri Abu Talib had served the Government for more than 30 years and held various positions including the position of the Attorney-General of Malaysia. He is currently the Chairman of the Suruhanjaya Hak Asasi Manusia (SUHAKAM) a human rights commission in Malaysia to promote awareness and provide human rights education. His extensive experience and knowledge has enhanced his role as the Chairman of the Company to provide informed and lucid approach to challenging tobacco industry issues and key business issues so as to ensure that all decisions made by the Board take into account the interest of the Group and its stakeholders.

Datuk Oh Chong Peng, the Chairman of the Audit Committee and also Senior Independent Non-Executive Director of the Company has an accounting career spanning more than 40 years and is well regarded in the accounting and audit sector. Datuk Oh Chong Peng will, if required, preside at meetings of the Board and shareholders in the absence of the Chairman. He is available, should occasion arise, where there is a need to convey concerns to the Board other than through the Chairman, Managing Director or the Company Secretary.

Dato' Ahmad Johari bin Tun Abdul Razak, is partner of a local legal firm and has more than 30 years of experience in the legal profession. In the academic field, he is presently an Adjunct Professor at University of Technology MARA, Law Faculty.

A list of the individual Directors, profile and details of their respective membership are provided on pages 36 to 39 of this Annual Report.

The current structure of the Board ensures that no single individual or group dominates the decision making process. Further, the roles of Chairman and Managing Director are separately held, and the division of their responsibilities is clearly established, with each having distinct and clearly defined authority and responsibilities. The duties and responsibilities of the Chairman and the Managing Director are clearly outlined in the BATM Code. This division of roles and responsibilities ensures that there is a balance of power and authority, such that there is no excessive concentration of power in the Chairman or the Managing Director.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting the agenda for all Board meetings. Once the objectives and strategies have been reviewed and adopted by the Board as a whole, the Managing Director's responsibility is to ensure delivery of such objectives and strategies within the authority limits delegated by the Board. The Managing Director is responsible for the stewardship of the Group's assets and the day to day management of the Company.

It is the duty of the Managing Director, working together with the other senior management of the Group, to manage the business of the Group in the manner consistent with the Standards, Business Principles and in accordance with any specific plans, instructions and directions of the Board.

The Members of the Board are all professionals of high calibre and integrity and they possess in-depth knowledge and experience of the tobacco business to enable them to discharge their duties effectively.



### principal responsibilities of the board

The Board directs the Group's risk assessment, strategic planning, succession planning and financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. The Board provides the leadership necessary to enable the Group's business objectives to be met within the framework of internal controls as described in this Statement. The Board is responsible for determining all major policies, reviewing the system of internal control, ensuring that effective strategies and management are in place, for assessing the performance of the Group and its senior management.

In discharging its responsibilities, the Board is guided by the code of ethics and principles contained in the BATM Code, Standards and the Business Principles. The Group's Standards and BATM Code outlined the conduct and responsibilities of the Board, the Chairman and the Managing Director. The Board ensures that compliance with the Group's Standards is monitored through a process where declarations are obtained from all Directors and management on their compliance and this includes disclosure of any conflict of interest situations.

Amongst key duties for which the Board is responsible for include, identifying principal risks and ensuring implementation of appropriate systems to manage these risks, reviewing and adopting strategic plans for the Group, reviewing the adequacy and integrity of the Group's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board of Directors has a collective responsibility for the management of the Group. The Executive Directors have direct responsibility for business operations and the Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board and providing objective challenge to the management.

The Non-Executive Directors do not participate in the day to day management of the Company and do not engage in any business dealing or other relationship with the Company to ensure that they are capable of exercising judgment objectively and act in the best interest of the Company, its shareholders and minority shareholders.

The Board is also responsible for declaring dividends and approving the financial statements and accounting policies of the Group. Other duties of the Board are to consider succession planning, including appointing, training, fixing the compensation and where appropriate, replacing senior management.

Further, pursuant to the Company's Statement of Delegated Authorities, the Board is also tasked to decide on the following business transactions and activities:

- Acquisition, disposal or closure of a business;
- Establishment of new business;
- Annual strategic plan;
- Capital investment and disposal of tangible assets from existing business to 3rd party;
- Purchase or sale of trademarks;
- Proposal of borrowings;
- Guarantee and Letters of Comfort;
- Proposal for borrowings or the grant of extended credit facilities by an operating subsidiary from another group company;
- Increase or reduction by an operating subsidiary of authorised or issued capital;
- Unbudgeted redemption or early repayment of loans;
- Any corporate restructuring not covered by any of the above paragraphs; and
- The change of name of any group company and the establishment of any new company.

#### ● *Top Team*

In discharging the abovementioned responsibilities and duties, the Board is duly assisted by the senior management of the Company, namely the Top Team which consists of senior officers holding the following positions:

1. Managing Director;
2. Finance Director;
3. Marketing Director;
4. Operations Director;
5. Corporate and Legal Affairs Director;
6. Human Resources Director; and
7. Business Development Services Director.

The details of each Top Team member appear on pages 42 to 43 of this Annual Report.

It is important that the Board and Top Team complement each other. Hence, the responsibilities and authorities of the Top Team are clearly defined in the Company's Corporate Authority Limit read in conjunction with the Statement of Delegated Authority. The Top Team is charged with the responsibility of implementing the policies and decisions of the Board, overseeing the operations as well as developing, co-coordinating and implementing business and corporate strategies.

From time to time, when the Board requires relevant information or updates from any members of the Top Team, the relevant member of the Top Team will be invited to attend meetings of the Board to provide the Board with any such relevant information or updates.



### ● **Company Secretary**

In addition to the Top Team, the Company Secretary provides support to the Chairman of the Company to ensure the effective functioning of the Board. The Company Secretary organises and attends all Board and Board Committees meetings and ensures that an accurate and proper record of deliberation of issues discussed, decisions and conclusions are taken.

The Company Secretary records, prepares and circulates the minutes of the meetings of the Board and Board Committees and ensures that the minutes are properly kept at the registered office of the Company and produced for inspection, if required.

In addition, the Company Secretary also updates the Board regularly on amendments to the Listing Requirements, practice and guidance notes, and circulars from Bursa Malaysia Securities Berhad, legal and regulatory developments and impact, if any, to the Group and its business. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is appointed and can be removed by the Board.

### **board meetings**

The Board schedules at least 4 meetings in a year to consider all matters relating to the overall control, business performance and strategy of the Company. Additional meetings will be called when and if necessary.

The Company's Board and Board Committee meetings are scheduled in the 3rd quarter of the preceding year so as to enable the Directors to plan ahead and ensure that the Board and the Board Committee meetings are booked in their respective schedules.

During the 12 months ended 31 December 2009, 6 Board Meetings were held.

The following table provides the attendance of the Directors at Board meetings held in 2009:

	Attendance at Meeting
<b>Tan Sri Abu Talib bin Othman</b> (Chairman) <i>Independent Non-Executive Director</i>	6/6
<b>Datuk Oh Chong Peng</b> <i>Independent Non-Executive Director</i>	6/6
<b>Dato' Ahmad Johari bin Tun Abdul Razak</b> <sup>1</sup> <i>Independent Non-Executive Director</i>	5/5
<b>James Richard Suttie</b> <i>Non-Independent Non-Executive Director</i>	6/6
<b>William Toh Ah Wah</b> <sup>2</sup> <i>Non-Independent Executive Director</i> (Managing Director)	5/5
<b>Stephen James Rush</b> <i>Non-Independent Executive Director</i> (Finance Director)	6/6
<b>Dato' Chan Choon Ngai</b> <i>Non-Independent Executive Director</i> (Operations Director)	6/6
<b>Jack Marie Henry David Bowles</b> <sup>3</sup> <i>Non-Independent Executive Director</i>	3/4

### **Notes:**

1. Dato' Ahmad Johari bin Tun Abdul Razak was appointed an Independent Non-Executive Director on 5 March 2009 and has not missed a meeting since his appointment.
2. William Toh Ah Wah was initially appointed to the Board as a Non-Independent Non-Executive Director on 5 March 2009 and subsequently became a Non-Independent Executive Director when he was appointed the Managing Director of the Company with effect from 1 October 2009. He has not missed a meeting since his appointment on 5 March 2009.
3. Jack Marie Henry David Bowles resigned as Non-Independent Executive Director and Managing Director of the Company on 30 September 2009 following his appointment to the British American Tobacco p.l.c. management board as Regional Director, Western Europe.

If a director is appointed mid way through a financial year, the computation of his minimum number of attendance of board meetings for the purpose of achieving the 50% attendance requirement for that financial year is determined by taking into account only the meetings held on or after his appointment.



Where any direction or decisions are required expeditiously or urgently from the Board between the regular meetings, special Board meetings are convened by the Company Secretary, after consultation with the Chairman. The agenda for Board meetings are set by the Chairman in consultation with the Managing Director and the Company Secretary.

Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2009, 10 resolutions were approved by the Directors via Circular Resolutions.

The Board has a regular schedule of matters which are in the agenda and reviewed during the course of the year namely, the Managing Director's Quarterly Reports, the Quarterly Unaudited Consolidated Results and recommendations made in the minutes of the Audit Committee, Remuneration Committee and Nomination Committee.

In 2009, amongst the key issues presented for consideration by the Board were:

1. Managing Director's Quarterly Reports;
2. Quarterly Unaudited Consolidated Results;
3. Company Plan for 2009-2010;
4. Amendments to Standards of Business Conduct;
5. Amendments to the Executive Compensation Committee's Terms of Reference;
6. Directors' Performance Evaluation 2008;
7. Amendments to the Internal Regulations on Securities Dealings;
8. All announcements released to Bursa Malaysia Securities Berhad;
9. Company's Corporate Social Responsibilities activities;
10. Company's Risk Management Programme;
11. Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Corporate Social Responsibility Committee's Statement);
12. Company's Audited Financial Statements; and
13. Corporate Governance Guide issued by Bursa Malaysia Berhad

Management employees or external advisors are invited to attend Board and Board Committee meetings to advise the Board and Board Committee members and furnish the members with information and clarification as and when required on items in the agenda tabled to the Board and Board Committees to enable them to arrive at a considered decision.

All issues are thoroughly discussed before decisions and conclusions are made at the Board and Board Committee meetings and these decisions and conclusions are recorded in the minutes of the Board and Board Committee respectively.

Where the Board or Board Committee is considering a matter in which a Director has an interest, the relevant Director abstains from deliberating and voting on the subject matter. Minutes of all Board and Board Committee meetings are circulated to all Directors for their perusal and confirmation. The Directors may request for clarification or raise comments on the minutes prior to confirmation of the minutes.

### **board committees and sub-committees**

The Board has established 3 main Board Committees to which it has delegated certain of its responsibilities. They are the Audit Committee, Nomination Committee and Remuneration Committee. Both the Audit Committee and Remuneration Committee have sub-committees reporting in to them. The Corporate Social Responsibility Committee and Risk Management Team report into the Audit Committee. The Executive Compensation Committee reports in to the Remuneration Committee. The sub-committees members are made up of the Top Team and senior managers of the Company.

To promote the smooth running of the Board Committees, each Board Committee shall adhere to the clear terms of reference which had been approved by the Board and set out in the BATM Code. All Board Committees have their roles/functions, written terms of reference, operating procedures and authorities clearly defined. The Board reviews the Board Committees' authority and terms of reference from time to time.

Each Board Committee has to submit to the Board, reports of their respective deliberations and recommendations and all deliberations and decisions taken have to be minuted and approved by the Board Committee and confirmed by the Chairman of the Board Committee at the next Board meeting.





The composition of the Board Committees as at 31 December 2009 and the attendance of the Members at the Board Committees meetings held in 2009 are as follows:

Member	Attendance		
	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Meeting
<b>Audit Committee</b>			
1. <b>Datuk Oh Chong Peng</b> (Chairman) <i>Independent Non-Executive Director</i>	4/4	—	—
2. <b>Tan Sri Abu Talib bin Othman</b> <i>Independent Non-Executive Director</i>	4/4	—	—
3. <b>Dato' Ahmad Johari bin Tun Abdul Razak *</b> <i>Independent Non-Executive Director</i>	4/4	—	—
4. <b>James Richard Suttie</b> <i>Non-Independent Non-Executive Director</i>	4/4	—	—
<b>Nomination Committee</b>			
1. <b>Tan Sri Abu Talib bin Othman</b> (Chairman) <i>Independent Non-Executive Director</i>	—	2/2	—
2. <b>Datuk Oh Chong Peng</b> <i>Independent Non-Executive Director</i>	—	2/2	—
3. <b>Dato' Ahmad Johari bin Tun Abdul Razak *</b> <i>Independent Non-Executive Director</i>	—	1/1	—
4. <b>James Richard Suttie</b> <i>Non-Independent Non-Executive Director</i>	—	2/2	—
<b>Remuneration Committee</b>			
1. <b>Tan Sri Abu Talib bin Othman</b> (Chairman) <i>Independent Non-Executive Director</i>	—	—	4/4
2. <b>Datuk Oh Chong Peng</b> <i>Independent Non-Executive Director</i>	—	—	4/4
3. <b>James Richard Suttie</b> <i>Non-Independent Non-Executive Director</i>	—	—	4/4
4. <b>William Toh Ah Wah **</b> <i>Non-Independent Executive Director</i>	—	—	1/1
5. <b>Jack Marie Henry David Bowles ***</b> <i>Non-Independent Executive Director</i>	—	—	2/3

\* appointed on 5 March 2009

\*\* appointed on 5 March 2009 as a Non-Independent Non-Executive Director and subsequently appointed as the Managing Director of the Company with effect 1 October 2009.

\*\*\* resigned on 30 September 2009 as a Non-Independent Executive Director and Managing Director of the Company following his appointment to the British American Tobacco p.l.c. management board as Regional Director, Western Europe.

The Board retains full responsibility for the direction and control of the Group. The roles and responsibilities for the Board Committees are described in detailed below.





## BOARD COMMITTEES

### 1. audit committee

The Board's obligation to establish formal and transparent arrangements in considering how it should apply financial reporting and internal control principles, and maintaining an appropriate relationship with the Company's external auditors, PricewaterhouseCoopers Malaysia is met through the Audit Committee.

As at the date of this Statement, the Audit Committee comprises 4 Directors. All Members of the Audit Committee are Non-Executive Directors, where 3 of the 4 Members are Independent Non-Executive Directors.

All Members of the Audit Committee are financially literate as defined by the Malaysian Code and the Chairman, Datuk Oh Chong Peng is an "audit committee financial expert" within the meaning set forth in the Listing Requirements. Datuk Oh Chong Peng is a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

#### **Authority**

The Audit Committee assists the Board in its review of the effectiveness of the internal control, risk management and governance process of the Company which includes reviewing the Company's financial statements and reporting processes.

The Audit Committee had met with management and the internal and external auditors to review the effectiveness of internal controls and business risk management, and receive reports from the Group's Regional Audit Committee. The Committee had reviewed compliance with the Standards and procedures in place within the Group for the management of its business policies. The Audit Committee has given detailed consideration to business risks arising in the context of the Group's treasury operations, its information technology systems and the threat to the Group's business posed by illicit trade, and reviewed the specific controls in place within the Group to address such risks. The Audit Committee has satisfied itself by means of these steps that proper and satisfactory internal control systems remain in place to identify and contain business risks, and that the Group's business is being conducted in a proper and economically sound manner.

The Audit Committee is also responsible for approving audit, recurring audit related and non-audit services audited by the external auditors and in carrying out their duties, the Audit Committee ensures that the independence and objectivity of the external auditors are not compromised.

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2009 audited by PricewaterhouseCoopers Malaysia and recommended to the Board on 10 February 2010, that the Audited Financial Statements as at 31 December 2009 be included in the Company's Annual Report 2009.

The Board of Directors had on 11 February 2010 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2009 and filed with the Bursa Malaysia Securities Berhad, Securities Commission and Companies Commission of Malaysia.

#### **Meetings**

The Managing Director, Finance Director, Head of Internal Audit and representatives of the external auditors attend meetings of the Audit Committee. The Audit Committee had met 4 times during 2009 and twice in 2009 with the External Auditors without the presence of the Executive Directors or management.

No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2009 from the Group other than the fees which had been received as a Director of the Company and allowances for attendance at meetings. The Chairman of the Audit Committee receives an annual fixed fee for his chairmanship of the Audit Committee.

The functions, composition and membership of the Audit Committee are described in detailed on pages 104 to 107 of this Annual Report.

### 2. nomination committee

The Nomination Committee comprises exclusively of Non-Executive Directors, where 2 of the 3 Members are Independent Non-Executive Directors.

The Nomination Committee is empowered by the Board to, amongst others, recommend to the Board suitable candidates for appointment as Directors, ensure that the Board has an appropriate balance of skills, expertise, attributes and core competencies from its members and review the profiles of the required skills, expertise, attributes and core competencies for membership to the Board and Board Committees. A Director seeking re-election and re-appointment will abstain from all deliberations regarding his re-election and re-appointment to the Board and Board Committees.

Meetings of the Nomination Committee are held at least once a year and as and when required. The Nomination Committee met twice during the financial year ended 31 December 2009.



The authority and terms of reference of the Nomination Committee are as follows:

**a. Authority**

The Nomination Committee is authorised by the Board to act as follows:

- To make proposals to the Board on suitable candidates for appointment as Directors;
- To ensure that the Board has an appropriate balance of skills, expertise, attributes and core competencies from its members;
- To regularly review profiles of the required skills, expertise, attributes and core competencies for membership to the Board;
- To review succession plans for members of the Board;
- To recommend to the Board, Directors to fill the seats on Board Committees; and
- To assess annually the effectiveness of the Board, Board Committees and the contribution of each individual Director.

**b. Meetings**

- The Nomination Committee shall meet at least once a year or upon the request of any of its members.
- A majority of the members in attendance must be Independent Directors in order to form a quorum for the meeting.
- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Nomination Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Nomination Committee shall report to the Board and its minutes will be tabled and noted by the Board.

In accordance with the Company's Articles of Association, at least one third of the Directors shall retire from office at each Annual General Meeting. Retiring Directors can offer themselves for re-election. In February 2009, the Nomination Committee recommended to the Board for the re-appointment of Datuk Oh Chong Peng and Jack Marie Henry David Bowles, who were subsequently re-elected as Directors at the Annual General Meeting on 20 April 2009.

Further, in March 2009, the Nomination Committee also recommended to the Board for the appointment of Dato' Ahmad Johari bin Tun Abdul Razak as Independent Non-Executive Director and William Toh Ah Wah as Non-Independent Non-Executive Director. These new Directors were subsequently re-appointed as Directors at the Annual General Meeting on 20 April 2009.

Thereafter, following the of appointment of Jack Marie Henry David Bowles to the British American Tobacco p.l.c. management board as Regional Director, Western Europe, the Nomination Committee recommended to the Board for the appointment of William Toh Ah Wah as the Managing Director of the Company with effect 1 October 2009.

**3. remuneration committee**

The Remuneration Committee comprises 4 Directors who are mainly Non-Executive Directors. 2 of the 3 Non-Executive Directors in the Remuneration Committee are Independent Non-Executive Directors. The Managing Director is 1 of the 4 Directors in the Remuneration Committee. The presence of the Managing Director in the Remuneration Committee is required as the Managing Director in consultation with the Chairman of the Company shall recommend to the Board the fees payable to non-executive directors as set forth in the BATM Code.

A Director whose remuneration package is being considered will abstain from deliberating and voting on the recommendation of the relevant Director's remuneration package. The Managing Director, who is a member of the Remuneration Committee, makes presentations to the Remuneration Committee on the remuneration, compensation payments, annual bonus and salary increments of Executive Directors and members of the Top Team.

The objectives of the Remuneration Committee in determining the levels and components of remuneration packages are to attract, motivate and retain talented and dedicated Executive Directors and members of the Top Team. In their determination, the Remuneration Committee takes into consideration levels comparable to those of key senior management in other benchmarked companies.

For other employees of the Group, the Board has delegated and empowered the Executive Compensation Committee to ensure that remuneration packages are such as to attract, motivate and retain talented and dedicated employees, at least comparable to those employees in other benchmarked companies.

The Remuneration Committee meets at least once a year and during the financial year ended 31 December 2009, the Remuneration Committee had met 4 times. Amongst the items deliberated by the Remuneration Committee in 2009 were the remuneration packages of the new Managing Director, salary adjustments of Finance Director, review of fees payable to Non-Executive Directors and amendments to the Executive Compensation Committee's Terms of Reference.



The authority and terms of reference of the Remuneration Committee are as follows:

**a. Authority**

The Remuneration Committee is authorised by the Board to act as follows:

- To recommend to the Board the Company's policy framework on the terms of employment of the Executive Directors and members of the Top Team;
- To recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and members of the Top Team;
- To review and approve the annual bonus and salary increments of the Executive Directors and members of the Top Team; and
- To review and recommend to the Board the remuneration of the Non-Executive Directors.

**b. Meetings and Minutes**

- The Remuneration Committee shall meet at least once in each year or otherwise as it decides.
- A majority of the members in attendance must be Non-Executive Directors in order to form a quorum for the meeting.
- Executive Directors and Non-Executive Directors shall abstain from the deliberations and voting decisions in respect of their respective remuneration either at the Remuneration Committee or Board level as the case may be.
- The Remuneration Committee shall be entitled to call for advice internally from the Human Resources Department or from external sources, when necessary.
- The Company Secretary shall record, prepare and circulate the minutes of the meetings of the Remuneration Committee and ensure that the minutes are properly kept and produced for inspection if required.
- The Remuneration Committee shall report to the Board and the minutes of the Remuneration Committee Meeting will be tabled and noted by the Board.

**Sub-Committees**

**1. Executive Compensation Committee (ECC)**

The ECC comprises Top Team members of the Company. British American Tobacco p.l.c.'s Asia Pacific Human Resources Manager or his or her nominee is an invitee to ECC meetings as and when deemed necessary by the ECC. The Managing Director of the Company is the Chairman of the ECC and the Human Resources Director of the Company acts as the Secretary of the ECC.

The ECC reports to the Remuneration Committee and the minutes of ECC are tabled at the Remuneration Committee meeting and to the Board.

The authority and terms of reference of the ECC are as follows:

**a. Authority**

The ECC is authorised to perform, with respect to all employees (except members of the Top Team) of the Group, the following functions:

- to review and approve all elements of remuneration, compensation payments, bonuses, rewards and benefits save and except salaries of employees in the Group which are reviewed and approved by the relevant Head of Functions with the Human Resources Director;
- to review and approve the mandate for collective agreement;
- to review, approve and amend as the case may be, the design and terms of the executive shares scheme;
- to review and approve voluntary separation scheme; and
- to note job upgrades of Grades 36 to 38.

**b. Meeting and Minutes**

- The ECC shall meet at least once in each year or otherwise as it decides.
- The quorum for the ECC shall be at least 5 members, including the Chairman, being present.
- The Secretary shall record and circulate the minutes of the meeting.
- The ECC shall report to the Remuneration Committee and its minutes will be tabled and noted by the Board.

In 2009, the ECC had met 3 times to deliberate on matters such as budgets for increment, increment guidelines, 2008 bonus payments and 2009 bonus targets.

**2. Corporate Social Responsibility (CSR) Committee**

The CSR Committee comprises the Company's Top Team with the Corporate Affairs Manager as the Secretary of the CSR Committee. The CSR Committee reports to the Board through the Audit Committee.

The terms of reference of the CSR Committee are as set out below:

**a. Purpose**

The CSR Committee reviews the Company's management of corporate responsibility plans including monitoring its alignment with the Statement of Business Principles.

The CSR Committee seeks to focus on the Company's social and environmental performance whereby social and environmental risks and issues are identified and appropriate and timely action is taken to address the issues identified. The CSR Committee also serves as a forum which demonstrates that the principles of corporate responsibility are effectively embedded throughout the Company.



### **b. Authority**

The CSR Committee is authorised by the Board of Directors to review activities within the Company, which fall within the ambit of the Company's management of corporate social responsibility. The CSR Committee in performing its functions is also authorised by the Board of Directors to secure external independent professional advice and the attendance of third parties with relevant experience and expertise, as well as parties from within the Company.

The CSR Committee will meet at least twice annually.

### **c. Objectives**

The CSR Committee's specific objectives are:

- Identification and management of key social and environmental issues;
- Identification and engagement with key stakeholders;
- Monitoring the efficiency and effectiveness of corporate social responsibility management systems and controls;
- Ensuring the reliability of social and environmental performance management information; and
- Monitoring alignment with the Company's Statement of Business Principles.

### **d. Relationship with Internal Audit**

Representatives from internal audit are invited to attend the CSR Committee meeting and be heard on any corporate responsibility matter which affects the Company. Internal audit has direct access to the Chairman of the CSR Committee on all corporate responsibility matters.

The CSR Committee met twice during the financial year ended 31 December 2009 and deliberated on matters such as proposals to enhance contribution towards eradicating poverty by 2010, building and embedding corporate responsibility awareness among employees, employee volunteer programmes, grant of scholarships and the way forward for sustainability reporting. The Company was recognised as the top Malaysian company in the Asian Sustainability Rating 2009 released by CSR Asia.

Details of the corporate responsibility activities are provided at pages 54 to 78 of this Annual Report.

## **3. risk management team (RMT)**

The Company has in place a Risk Management Team (RMT) which reports to the Audit Committee. The Risk Management Team comprises senior managers from all functions of the Company and is headed by the Finance Director.

The terms of reference of the RMT are as set out below:

### **a. Objectives**

The RMT's objectives are:

- To protect the Group's corporate assets and its ability to meet or exceed its strategic business objectives consistently;
- To minimise the total cost of risk; and
- To comply with the Malaysian Code and the guidelines on risk management set by the Company's ultimate holding company, British American Tobacco p.l.c.

### **b. Authority**

The RMT is authorised to:

- Review and update the Top Team and Audit Committee on the Group's Enterprise Risk Management programme;
- Review and recommend to the Top Team and Audit Committee the key risks for the Group;
- Review and update the Top Team and Audit Committee on the ongoing status of the key risk response measures; and
- Review and update the Top Team and Audit Committee on the status of the Business Continuity Plans.

The Risk Management Team met 3 times during the financial year ended 31 December 2009 to deliberate on the above matters.

### **c. Relationship with Internal Audit**

Representative from the Internal Audit participates in the RMT meetings as an advisor on the effectiveness of the risk management process. The representative also reviews the effectiveness of the internal controls and risk mitigation plans in place for key business risks identified. The Internal Audit provides a facilitation role on above market risks-regional and global risks that have been identified by related parties.

The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management programme bi-annually. Details of the Groups Enterprise Risk Management programme and its processes are provided in pages 108 to 111 of the Annual Report.

## **appointment and re-election process of directors**

### **Appointment process**

The Board appoints its members through a formal process which is consistent with the Articles of Association (Articles) of the Company. The Board has established the Nomination Committee to make recommendations on suitable candidates for appointment to the Board, ensuring that the Board has the appropriate balance of expertise and ability. Candidates recommended by the Nomination Committee must be approved and appointed by the Board. The Nomination





Committee is responsible to ensure that the procedures for appointing new Directors are transparent and rigorous and that appointments are made on merit and against objective criteria for the purpose. This process includes an evaluation of the skills and experience of the candidates. This process also applies to Directors who seek re-election or re-appointment at the Company's Annual General Meeting.

In evaluating the suitability of individual for Board membership, the Nomination Committee takes into consideration many factors, including whether the individual meets the requirements for independence as defined in the Listing Requirements, the individual's general understanding of the Company's business and market, the individual professional expertise and educational background and other factors that promote diversity of views and experience. Further, the individual may hold up to 10 directorships in listed companies and up to 15 for non-listed companies (both non-listed and private companies).

#### **Re-election or re-appointment process**

The Company does not have a term limit for both Executive Directors and Independent Directors as the Board believes that continued contribution provides benefit to the Board and the Group as a whole. Further, the Company is confident and firmly believes that individuals chosen and appointed to the Board as Directors are all individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively.

Notwithstanding the above, Directors of the Company have offered themselves for re-appointment at regular intervals in accordance with the Articles.

The Board will recommend to shareholders that Executive and Non-Executive Directors be proposed for re-election or re-appointment at an Annual General Meeting, in accordance with the Articles and upon recommendation of the Nomination Committee after evaluating the performance of the individual Director.

The changes to the Board and Directors' re-appointment in 2009 are as follows:

Name	Designation	Nature of changes at the 2009 Annual General Meeting
Tan Sri Abu Talib bin Othman	Independent Non-Executive Director	Re-appointed
Dato' Ahmad Johari bin Tun Abdul Razak	Appointed as Independent Non-Executive Director on 5 March 2009	Re-appointed
William Toh Ah Wah	Appointed as Non-Independent Executive Director on 5 March 2009	Re-appointed
Datuk Oh Chong Peng	Independent Non-Executive Director	Re-elected
Jack Marie Henry David Bowles *	Non-Independent Executive Director	Re-elected

\* *resigned on 30 September 2009 as a Non-Independent Executive Director and Managing Director of the Company following his appointment to the British American Tobacco p.l.c. management board as Regional Director, Western Europe.*

Articles 97(1) and (2) of the Articles provides that at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-election.

Stephen James Rush, a Non-Independent Executive Director and Dato' Chan Choon Ngai, a Non-Independent Executive Director, are due to retire pursuant to Articles 97(1) and (2) at this Annual General Meeting and will be recommended for re-election and re-appointment by the Board pursuant to the Articles.

Section 129(6) of the Companies Act, 1965 provides that a person of or over the age of 70 years may be appointed or re-appointed as a director by the shareholders of the Company

to hold office until the next Annual General Meeting. The Chairman of the Company, Tan Sri Abu Talib bin Othman, who has attained the age of 70, will retire in accordance with the aforesaid section and had offered himself for re-election and re-appointment by the Board pursuant to the Articles.

Information of each Director standing for re-election is furnished in a separate statement accompanying the Notice of the Annual General Meeting.

In determining whether to recommend a Director for re-election and re-appointment, the Director's past attendance at meetings, participation and contribution to the activities of the Board will be duly considered by the Nomination Committee.





The Nomination Committee is satisfied that Tan Sri Abu Talib bin Othman, Stephen James Rush and Dato' Chan Choon Ngai have met the requirements set out above and has recommended to the Board of Directors their re-election and re-appointment at the Annual General Meeting on 20 April 2010.

The above Directors who are subject to re-election and re-appointment have accepted the recommendation and have agreed to serve as Directors if elected by the shareholders.

### directors' remuneration

The policy for Directors' remuneration is to provide a remuneration package needed to attract, retain and motivate Directors of the quality required to manage the business of the Group.

For the Executive Directors of the Group, corporate and individual performance is rewarded through the use of an integrated pay benefits and bonus structure and reflects the competitive nature of the Group's operations in order to contribute to the Winning Organisation strategy of the Group. Executive Directors who are full time employees of the Company receive no additional compensation for services as a Director of the Board. On an annual basis, the Remuneration Committee considers market competitiveness, business results and individual performance in evaluating the Executive Director's remuneration.

In evaluating the Managing Director's remuneration, the Remuneration Committee also takes into account corporate and individual performance, as well as performance on a range of other factors including accomplishment of strategic goals as well as regional and global corporate performance.

The Remuneration Committee recommends to the Board the remuneration package of an Executive Director and it is the responsibility of the Board as a whole to approve the remuneration package of an Executive Director.

The remuneration package for Executive Directors comprises the following elements:

#### \* **Basic Salary**

The basic salaries for the Executive Directors are recommended by the Remuneration Committee to the Board for approval.

#### \* **Benefits-in-kind**

Customary benefits such as provision of rented accommodation, motor vehicle, club membership and personal expenses are made available to the Executive Directors in accordance with the policies of the Group.

#### \* **Emoluments**

Emoluments such as bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c. pursuant to the British American Tobacco p.l.c.'s shares scheme.

For Non-Executive Directors, the amount of remuneration varies with the level of responsibilities undertaken by the individual Non-Executive Director.

The fees payable to each of the Non-Executive Director are determined by the Board as authorised by the shareholders of the Company.

All Non-Executive Directors are paid fixed annual director fees as members of the Board and Board Committees. In addition to fixed annual director fees, all Non-Executive Directors, save for the Chairman of the Board, is paid a meeting attendance allowance for each Board and Committee meeting attended. In recognition of the additional time and commitment required, the Chairman of the Audit Committee also receives an annual fixed fee for his chairmanship in the Audit Committee.

Information prepared by independent consultants and survey data on the remuneration practices of comparable companies are taken into consideration in determining the remuneration packages for Executive and Non-Executive Directors.

The details of the remuneration of Executive and Non-Executive Directors for the financial year ended 31 December 2009 are as follows:

Directors	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
<b>Tan Sri Abu Talib bin Othman</b> ( <i>Chairman</i> ) <i>Independent Non-Executive Director</i>	337,000 ***	—	4,840	28,430	370,270
<b>Datuk Oh Chong Peng</b> <i>Independent Non-Executive Director</i>	60,000	—	29,000	—	89,000
<b>James Richard Suttie</b> <i>Non-Independent Non-Executive Director</i>	60,000	—	9,000	—	69,000



Directors	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits-in-kind** (RM)	Total (RM)
<b>Dato' Ahmad Johari bin Tun Abdul Razak</b> <sup>1</sup> <i>Independent Non-Executive Director</i>	49,500	—	4,000	—	53,500
<b>Toh Ah Wah</b> <sup>2</sup> <i>(Managing Director)</i> <i>Non-Independent Executive Director</i>	—	427,875	750,661	6,284	1,184,820
<b>Dato' Chan Choon Ngai</b> <i>Non-Independent Executive Director</i> <i>(Operations Director)</i>	—	896,610	1,438,532	106,764	2,441,906
<b>Stephen James Rush</b> <i>Non-Independent Executive Director</i> <i>(Finance Director)</i>	—	745,160	1,532,856	268,776	2,546,792
<b>Jack Marie Henry David Bowles</b> <sup>3</sup> <i>Non-Independent Executive Director</i>	—	1,200,714	3,124,421	295,114	4,620,249

\* Other emoluments include bonuses, retirement benefits, provision for leave, fixed allowances, statutory contributions and incentives in the form of shares/option in shares of British American Tobacco p.l.c. pursuant to the British American Tobacco p.l.c.'s shares scheme.

\*\* Benefits-in-kind include provision of rented accommodation, motor vehicle, club membership and personal expenses.

\*\*\* Fees for being Chairman of the Board, Chairman of relevant Board Committees and meeting fees.

1 appointed on 5 March 2009

2 appointed as Non-Independent Non-Executive Director on 5 March 2009 and was subsequently appointed as the Managing Director with effect from 1 October 2009

3 resigned on 30 September 2009 following his appointment to the British American Tobacco p.l.c. management board as Regional Director, Western Europe

## board performance evaluation

The Board conducts an annual evaluation of its activities. The Board evaluates the overall Board's performance against criteria that the Board determines are important to its success. These include the Board's composition, communication, effectiveness and responsibilities. The Company Secretary circulates to the Directors an evaluation survey questionnaire to ascertain their views on the performance of the Board and its Board Committees which thereafter are compiled into a report for the Chairman. The report is presented to the Nomination Committee and then to the Board for evaluation and consideration.

The Board's performance evaluation process in 2009 reported that the Board and Board Committees had continued to operate effectively in discharging their duties and responsibilities. Overall, the Directors were of the opinion that they have fulfilled their responsibilities as members of the Board and Board Committees and were satisfied with the Group's direction, strategy, planning and budgeting process and their level of contribution to these matters.

All Directors confirmed that they have sufficient access to the Chairman. The Directors agreed that the Managing Director and senior management were responsive to questions and issues raised by the Board and that the Managing Director and senior management communicated with the Board in an open, candid and timely manner. The Board also agreed that the Company has sufficient risk management procedures in place and the Board's goals, objectives, expectations and concerns were effectively communicated to the Managing Director and senior management to be acted upon.

## directors' training

In order to ensure that the Directors are well equipped to discharge their responsibilities, newly appointed Directors will undergo an induction programme upon joining the Board which consists of briefings on all areas of the Group's business. Dato' Ahmad Johari bin Tun Abdul Razak and William Toh Ah Wah, who were appointed to the Board on 5 March 2009, completed their induction programme by June 2009.



All existing Directors of the Company have completed the Mandatory Accreditation Programme (MAP). Any Director appointed to the Board is required to complete the MAP within 4 months from the date of appointment. Following the repeal of the Continuing Education Programme (CEP) requirements prescribed by Bursa Malaysia Securities Berhad with effect from 1 January 2005, the Board of Directors continue to evaluate and determine the training needs of its Directors to ensure continuing education to assist them in the discharge of their duties as Directors.

All Directors appointed to the Board, apart from attending the MAP have also completed other relevant training programmes to further enhance their business acumen and professionalism in discharging their duties to the Group. Pursuant to paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements, the Directors have during the financial year ended 31 December 2009 attended training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence.

To further enhance the Director's knowledge in relation to the business of the Group, the Directors have made visits to the factory, leaf growing areas and on trade marketing and

distribution centers of the Group. During such visits, the Directors obtained first hand understanding of the business operations and challenges faced by the Group.

In 2009, all the Directors attended an in-house education programme and acquired comprehensive insights on CSR and Socially Responsible Investment and their impacts, tax updates and the key changes and an overview of ASEAN Free Trade Area (AFTA) Agreement, updates on new Securities Commission and Bursa Securities framework and capital market legislation and raised their awareness on information security. The in-house programme had been led by consultants and professionals Commission with relevant legal, finance and board experience.

The Company also provided internal briefings to the Directors on key corporate governance developments and update them on changes to the Listing Requirements, laws and regulations. The Directors were fully informed of the impact of such development or changes to the Company.

The Directors are also encouraged to attend appropriate external trainings and where applicable to the Company, the costs of attending these programmes are borne by the Company.

Particulars of training programmes attended by the Directors as at 31 December 2009 are as follows:

No.	Name of Director	Training Programme	Details of Programme
1.	<b>Tan Sri Abu Talib bin Othman</b>	Directors CEP Training 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
		Corporate Governance Updates (by PricewaterhouseCoopers Malaysia)	<ul style="list-style-type: none"> <li>– Corporate Governance Updates in line with Bursa Corporate Governance Guide</li> </ul>
2.	<b>William Toh Ah Wah</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
		Corporate Governance Updates (by PricewaterhouseCoopers Malaysia)	<ul style="list-style-type: none"> <li>– Corporate Governance Updates in line with Bursa Corporate Governance Guide</li> </ul>
		Mandatory Accreditation Programme (MAP) (by Bursatra Sdn Bhd)	<ul style="list-style-type: none"> <li>– Bursa Malaysia Listing Requirements for public-listed companies</li> </ul>



Particulars of training programmes attended by the Directors as at 31 December 2009 are as follows (continued):

No.	Name of Director	Training Programme	Details of Programme
3.	<b>Datuk Oh Chong Peng</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax Updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
4.	<b>James Richard Suttie</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax Updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
5.	<b>Dato' Chan Choon Ngai</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax Updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
6.	<b>Stephen James Rush</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax Updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
		Corporate Governance Guide-Towards Boardroom Excellence (by Malaysian Institute of Accountants)	<ul style="list-style-type: none"> <li>– Corporate Governance Updates in line with Bursa Corporate Governance Guide</li> </ul>
7.	<b>Dato' Ahmad Johari bin Tun Abdul Razak</b>	Directors CEP Training Programme 2009 (In-house training)	<ul style="list-style-type: none"> <li>– Corporate Social Responsibility &amp; Board Level Leadership</li> <li>– Tax Updates and AFTA Agreement</li> <li>– Overview of Malaysian Securities Law &amp; Capital Markets Legislation</li> <li>– Information Security Awareness</li> </ul>
		Financial Institutions Directors' Education (FIDE) Programme (by Bank Negara Malaysia)	<ul style="list-style-type: none"> <li>– Financial Sector Issues and Challenges</li> <li>– Leverage on International &amp; Local Experts in Corporate Governance &amp; Financial Services Industry</li> </ul>



### quality and access to information and independent advice

The Board has direct and unrestricted access to all information within the Company and is able to seek independent professional advice at the Company's expense, if necessary. In carrying out their duties, the Board has direct and unrestricted access to the management of the Company and individual access to the advice and services of the Company Secretary.

Save for the Executive Compensation Committee and Corporate Social Responsibility Committee Meetings, the Company Secretary attends all meetings of the Board and its Committees. Save for where the meetings are held only for the Audit Committee and the external auditors, the Managing Director attends all meetings of Audit Committee and Remuneration Committee, the Human Resources Director attends all meetings of the Executive Compensation Committee, Nomination Committee and Remuneration Committee and save for where the meetings are held only for the Audit Committee and the external auditors the Finance Director attends all meetings of the Audit Committee.

### supply of information

The Board and Board Committees receive up-to-date information for review in good time and ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures the flow of information to the Board and Board Committees. The Company Secretary is also responsible for advising the Board, through the Chairman on all governance matters. Prior to Board and Board Committee meetings, a formal and structured agenda together with a set of Board and Board Committee papers containing information relevant to the matters to be deliberated at the meeting are forwarded to all Directors at least 5 days before the relevant Board and Board Committee meetings. This is to enable Directors to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings. The meeting papers are presented in a manner that is concise which include among others, comprehensive management reports, minutes of meetings, proposals project and supporting documents.

Presentations to the Board and Board Committees are prepared and delivered in a manner that ensures a clear and adequate presentation of the subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to assist all Directors in having an understanding of the subject matter.

The Board recognises that the decision making process is highly dependent on the quality of information furnished. In furtherance to this, every Director has unrestricted access to all information within the Company. The Board encourages the attendance of senior management as well as officers of

the Company at Board and Board Committee meetings to increase the Board's understanding of the Company's operations and to give the Directors access to senior management.

The Directors are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of Directors and their impact and implication to the Company and the Directors in carrying out their fiduciary duties and responsibilities. There is also a formal procedure approved by the Board for all Directors, whether acting as a full Board or in their individual capacity, to obtain independent professional advice when necessary, at the Group's expense. Prior to engaging an independent adviser, approval must be obtained from the Chairman of the Board and, where applicable, the Chairman may circulate the external advice to the Board.

### RELATIONSHIP WITH STAKEHOLDERS

The Board believes that they are not only accountable to shareholders but also responsible for managing a successful and productive relationship with the Company's stakeholders.

### SHAREHOLDERS

The Group recognises the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and ensure that the rights of all investors, including minority shareholders are protected.

The Group's primary contact with shareholders is through the Chairman, Managing Director, Finance Director and Company Secretary. All shareholders' queries will be received by the Company Secretary. The Company Secretary will provide feedback and responses to shareholder queries and where any information may be regarded as sensitive information about the Group such information will not be made available to a shareholder unless already in the public domain through disclosure.

### annual general meeting (AGM)

The AGM is the principal opportunity for the Board to meet the shareholders of the Company and for the Chairman to inform on the Company's progress and receive questions from the shareholders. At the AGM, shareholders participate in the deliberations of the resolutions being proposed or on the Group's operations in general. At every AGM, a helpdesk will be set up as a contact point for the shareholders.

The 2009 AGM was held on 20 April 2009 at the Hilton Hotel in Petaling Jaya, Selangor. The number of shareholders that attended the AGM in 2009 had increased and this indicates a high level of engagement with shareholders. All





resolutions were approved and all Directors including the Company Secretary attended the meeting. The Board of Directors, senior management and the Company's external legal counsels and auditors, PricewaterhouseCoopers Malaysia were present to answer questions raised and provide clarification as required by the shareholders. A press conference was held immediately after the AGM where the Chairman, Managing Director and Finance Director provided updates to the media representatives of the resolutions passed and answered questions on matters related to the Group.

The 2010 AGM will be held on 20 April 2010 at the Hilton Hotel in Petaling Jaya, Selangor. The Notice of AGM and the Proxy Form are enclosed with the abridged annual report. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's websites on 20 April 2010.

### annual report

Another major channel used by the Board to provide its shareholders and investors with information on its business, financials and other key activities is the Annual Report of the Company, which contents are continuously enhanced to take into account developments, amongst others, in corporate governance.

The Board aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements and the BATM Code.

The Company has in place an internal framework to ensure the accuracy of information pertaining to operation excellence, market share and growth (including illicit cigarettes concern in Malaysia) and corporate social responsibility initiatives. These areas are governed by project boards set up pursuant to the PRINCE 2 (PROjects IN Controlled Environments) which is a process-based governance methodology for effective project management and consist of a cross functional team comprising of Top Team members and senior managers of the Company.

The Statement on Corporate Governance, Statement on Internal Control, Standards of Business Conduct and Audit Committee Report form part of the Annual Report 2009. These statements and reports were tabled at the Audit Committee meeting for its comments and recommendation to the Board of Directors for review and deliberation before being incorporated into the Annual Report.

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Company sends out the Notice of the Annual General Meeting and related circular to shareholders at least 21 days before the meeting as required by the Companies Act, 1965 in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the Annual General Meeting, a full explanation is provided to shareholders on the effect of the proposed resolution emanating from the special business item.

Prompt and timely release of financial results on a quarterly basis enables shareholders to have an overview of the Group's performance and operations and make informed investment decisions.

### release of annual report

	Date of Issue/Release	Bursa Securities Deadline	Number of Days after end of year
Annual Report 2009	25 March 2010	30 June 2010	84
Annual Report 2008	23 March 2009	30 June 2009	82

### release of quarterly financial results

2009 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of Days after end of Quarter
1st Quarter	22 April 2009	31 May 2009	23
2nd Quarter	23 July 2009	31 August 2009	23
3rd Quarter	19 November 2009	30 November 2009	50
4th Quarter	11 February 2010	28 February 2010	42



## INVESTOR RELATIONS

### quarterly briefings and other forms of communication

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of results to Bursa Malaysia Securities Berhad.

The quarterly briefings are intended not only to promote the dissemination of the financial results of the Group to as wide an audience of investors, shareholders and media as possible but also to keep the investing public and other stakeholders updated on the progress and development of the business of the Group.

The quarterly briefings are attended by the Managing Director, the Finance Director and the Corporate and Legal Affairs Director of the Company.

In 2009, the Company held 4 quarterly briefings, 17 direct one-on-one meetings, 3 roadshows, and hosted 3 teleconferences with fund managers, institutional investors and investment analysts.

### company website

To maintain the highest level of transparency as possible, the Group has established a website at [www.batmalaysia.com](http://www.batmalaysia.com) where shareholders can access for information under the 'Investor' link encompassing corporate information, latest annual reports, latest press releases, latest financial results, share prices, Bursa Malaysia Securities Berhad's announcement, investor relations and briefings, the Group's policies and standards social responsibility, tobacco issues and even career opportunities.

### senior personnel

Shareholders and other interested parties may contact the Company's designated Senior Independent Director, Datuk Oh Chong Peng to address any concerns by writing or via telephone, facsimile or electronic mail as follows:

Tel: +60 (3)7956 6899

Fax: +60 (3)7491 3772

E-mail: [ocpeng@bat.com](mailto:ocpeng@bat.com)

Postal Address:

Virginia Park, Jalan Universiti

46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Primary contact for investor relation matters:

**Stephen James Rush**

*Finance Director*

### Contact Details

Telephone number: +60 (3)7491 7328

E-mail: [fdooffice\\_malaysia@bat.com](mailto:fdooffice_malaysia@bat.com)

Postal Address:

Virginia Park, Jalan Universiti

46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia

It has been the Company's practice to respond to shareholders letters, telephone and email enquiries. Each letter or electronic mail received, if it requires the attention of the Board of Directors, will be reviewed by the Legal and Secretarial Department before the same is forwarded to the Board of Directors for consideration.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, the Company is mindful of the legal and regulatory framework governing the release of material and price sensitive information. Any information that may be regarded as sensitive information about the Group will not be disclosed to the public.

## EMPLOYEES

The Company believes in promoting high standards of conduct and to ensure that all employees continuously uphold such conduct in the performance of their duties, they are guided by 4 value systems, namely the Guiding Principles, Employment Principles, Business Principles and Standards of Business Conduct (Value System).

The Guiding Principles which are premised on 4 values namely, strength from diversity, open minded, freedom through responsibility and enterprising spirit embodied the Company's culture, the personality of the organisation and guides the way the Company's employees behave. The Employment Principles focusses on work place practices and ethics, employee relations and employee human rights. This principle set out a common approach to the development of policies and procedures taking into account of the labour law and practice and the political, economic and cultural context. The Business Principles describes how the Company should be run in terms of responsibility and the Standards describes high standards of business integrity and code of ethics that guide an employee's conduct.

To ensure compliance, all management employees, including the Board of Directors and the Group's supplier and service providers are required to declare their compliance with the Standards and disclose any conflicts of interest on a yearly basis. A register of declaration of interest is maintained by the Company Secretary. All declarations of interest are tabled at the Board meeting for consideration. In 2009, there had been 19 declarations of interest made by employees of the Company.



The Company also conducted Risk Awareness workshops aimed at imparting the significance of risk management and internal controls and its impact on the employees' day to day activities.

Details of the Company's Value Systems are available at the Company's website at [www.batmalaysia.com](http://www.batmalaysia.com).

## CONSUMERS

Guided by the Principle of Responsible Product Stewardship, the Company's products and brands are developed, manufactured and marketed in a responsible manner. To achieve Company's vision of uncompromising quality, the Company had in 2008 launched a consumer hotline for one of its leading cigarette brand with the objectives to capture consumer complaints, feedback and to respond to all complaints in a timely manner.

## SUPPLIERS AND SERVICE PROVIDERS

The Standards which are applicable to the Company's employees are similarly binding on the Company's suppliers and service providers to ensure high standards of business ethics amongst all suppliers and service providers of the Company including the supplier or service provider's related companies. The Standards are incorporated into the contract with the relevant supplier or service provider. It is made clear in all agreements with suppliers and service providers that breaches of any provisions in the Standards of which the relevant supplier or service provider have been made aware of, may lead to immediate termination of the contract with the affected supplier or service provider.

## ACCOUNTABILITY AND AUDIT

### financial reporting

The Board aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly and half yearly announcement of results to shareholders as well as the Chairman's statement and review of operations in the annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

### directors' responsibility statement in respect of the preparation of the audited financial statements

The Board ensures that the Company's financial statements provide a true and fair view of the state of affairs of the Group and of the Company as at the end of the accounting period and of the profit or loss and cash flows for the period then ended. In preparing the financial statements, the Directors have ensured that accounting standards approved by the Malaysian Accounting Standards Board (MASB) in Malaysia and the provisions of the Companies Act, 1965 have been complied with and reasonable and prudent judgments and estimates have been made. The Directors have also overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and for the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position and prospects in the Directors' Report at pages 119 to 123 and the Financial Statements from pages 119 to 178 of this Annual Report.

### internal control

It is important to emphasise that the ultimate responsibility for ensuring a sound internal control system and reviewing the effectiveness of the system lies with the Board. The Board sets policies and procedures for internal control and ensures that such internal control system is properly carried out by the executive management. The Company has established processes to oversee and manage risk.

Details of these processes are set on pages 102 to 103 of this Annual Report.

The Company has in place an Information Technology Policy that outlines the processes that should be followed to create policies, best practices, standards and the use of the supporting information technologies. The Company is mindful of the legal implications if technology systems or information are misused in a manner which breaches legislation. The Company therefore ensures that all software used by the Group are licensed copies.

In accordance with the Guidance for Directors of Public Listed Companies, reviews by the Board were carried out at least annually, covering all material controls including financial, operational and compliance controls and risk management systems. The Board derives reasonable assurances from reports submitted by the relevant committee on risk management and internal control.

Details of internal audit function appear on page 107 of this Annual Report.



### whistleblowing policy

One of the key provisions in the Standards is whistleblowing. The Group acknowledge that misconduct in any company such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group.

An early warning system such as a whistleblowing procedure can help the Group detect wrongdoings and alert the Group to take corrective action before a problem becomes a crisis. A whistleblowing system strengthens, supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. It is the Board's belief that having a whistleblowing system in place will increase investors' confidence in the Group and in line with the Group's sound corporate governance practices, an internal whistleblowing procedure were established in 2004 pursuant to the Standards and is constantly reviewed by the Company for enhancements from time to time.

The Group's employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Group's business through the internal whistleblowing procedure.

The internal whistleblowing procedure is a comprehensive framework which outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance, and allows the whistleblower the opportunity to raise a concern outside their management line. The Company maintains a register of all whistleblowing/breach of Standards incidences.

An employee who complies in good faith with his or her duty to report suspected misconduct and who discloses information will be protected by the Company from coercion, retaliation or reprisal in connection with his or her co-operation. Protection is extended throughout the discipline and appeal process, including safe guarding the identity of the whistleblower.

These procedures enable employees to make their concerns known without fear of retaliation and in the knowledge that procedures are in place in which their complaints are acted upon and their identity is kept confidential. Any concerns raised will be investigated by an investigation team which comprises of senior managers and a report and updates are provided to the Board of Directors, through the Audit Committee. The report and updates will also be submitted to the Regional Audit Committee for the British American Tobacco p.l.c's Main Board Audit Committee.

The whistleblowing procedure is made available to all employees via the Group's intranet.

In 2009, 12 whistleblowing/breach of Standards incidents were reported covering areas such as misappropriation of Company's assets, fraud and conflicts of interest. All incidents reported were investigated by an investigation team comprising of senior managers with appropriate actions being taken, where necessary and reported to the Audit Committee.

### statement on internal control

The Statement on Internal Control furnished on pages 102 to 103 of the Annual Report provides an overview on the state of internal controls within the Group.

### related party transactions

An internal compliance framework exists to ensure that the Group meet its obligations under the Listing Requirements including obligations relating to related party transactions. The Board, through its Audit Committee, reviews all related party transactions involved. A Director who has an interest in a transaction must abstain from deliberating and voting on the relevant resolution, in respect of such transaction at the Board and at any general meeting convened to consider the matter.

There are procedures established by the Company to ensure that all related party transactions are undertaken on an arm's length basis and on normal commercial terms, consistent with the Company's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders.

The internal framework pertaining to the governance of related party transactions is summarised as follows:

- A list of related parties of the Company will be circulated to the Directors and management of the Company and its subsidiaries to notify that all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms and not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders;
- All related party transactions will be reported to the Audit Committee of the Company. Any member of the Audit Committee of the Company may as he deems fit, request for additional information pertaining to the transaction including from independent sources or advisers;
- All recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions will be recorded by the Company in a register or records maintained by the Company;





- All recurrent related party transactions entered into pursuant to the shareholders' mandate shall be reviewed by Internal Audit and incorporated into the annual Internal Audit to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to; and
- The Board and the Audit Committee shall review the annual Internal Audit reports to ascertain that the review procedures established to monitor recurrent related party transactions have been complied with.

The Recurrent Related Party Transactions entered into by the Group with its related parties in 2009 were for the purchase and sale of cigarettes and tobacco products, purchase of leaf, cigarette packaging materials and tobacco products, procurement of information technology services, payment of royalties, payment of fees for technical and advisory support services, provision of technical and advisory support services and purchase and sale of equipment.

Details of these transactions are set out in pages 167 to 170 of this Annual Report.

### relationship with external auditors

The Audit Committee discusses with the external auditors the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the management will provide a timely response on any material queries raised by the external auditors after the audit to management, in respect of the accounting records, financial accounts or systems of control.

The Audit Committee works closely with the senior audit partner assigned by PricewaterhouseCoopers Malaysia to the Company, to act as the key representative for overseeing the relationship of the Company with the external auditors. In compliance with the Malaysian Institute of Accountants, the Company rotates its audit partners every 5 years to ensure objectivity, independence and integrity of the audit opinions.

The Audit Committee also meets with the external auditors to review the reasonableness of significant judgment, accounting principles and the operating effectiveness of internal controls and business risk management.

The Audit Committee met with the external auditors twice in 2009 without the presence of the Executive Directors or management.

The Audit Committee is tasked with authority from the Board to review any matters concerning the appointment and re-appointment, audit fee, resignation or dismissal of external auditors and review and evaluate factors relating to the independence of the external auditors and assist them in preserving their independence.

### compliance with the code

The Board has deliberated, reviewed and approved the Statement on Corporate Governance. The Board considers that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Malaysian Code has been applied. The Board considers and is satisfied that the Company has fulfilled its obligation under the BATM Code, Malaysian Code, the Listing Requirements and all applicable laws and regulations throughout the financial year ended 31 December 2009.

**This Statement is made in accordance with the Board of Directors' Circular Resolution dated 25 February 2010.**

**Tan Sri Abu Talib bin Othman**  
*Chairman*





## Responsibility

The Board of Directors recognises the importance of sound internal controls and risk management practices to safeguard shareholders' investments and the Group's assets. The Board affirms its overall responsibility for the Group's system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. As there are limitations that are inherent in any system of internal control, this system is designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss. The system of internal control covers, inter alia, financial, operational and compliance controls and risk management procedures.

The Group has in place an on-going process for identifying, evaluating, monitoring and managing significant risks faced by the Group and this process includes reviewing and updating the system of internal controls to take into consideration changes in the regulatory and business environment. This process is regularly reviewed by the Board via the Audit Committee and the Risk Management Team and accords with the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

The Board ensures that management undertakes such actions as may be necessary in the implementation of the policies and procedures on risk and control approved by the Board. Management is tasked to identify and assess the risk faced and thereafter designs, implements and monitors appropriate internal controls to mitigate and control those risks.

### risk management

Risk management is firmly embedded in the Group's management system and is every employee's responsibility as the Group firmly believes that risk management is critical for the Group's sustainability and the enhancement of shareholder value.

The Risk Management Team, led by the Finance Director and represented by Senior Managers from all functions of the Group will meet at least twice a year to review and update the risk register and risk mitigation action plans.

Selected business continuity plans (or contingency plans) were reviewed, updated and/or tested during the year under review. Management continually develops new business continuity plans to support changes in the business environment. Senior Managers who own the respective business continuity plans made formal presentations to the Top Team on their crisis readiness.

The Audit Committee was briefed by the Enterprise Risk Manager on the Group's Risk Management Programme in April and November 2009.

### key internal control processes

Central to the Group's internal control and risk management systems is its Control Self Assessment (CSA) process, which has developed and continues to improve over time. A key control checklist is developed and sets out the various key controls and process requirements across all functions in the Group and is updated annually taking into consideration the changing risk profiles as dictated by changes in the business and regulatory environment, strategies and functional activities from time to time. All business units are required to document the controls and processes for managing the risks and assess their effectiveness on an annual basis. The key control checklist and trend analysis are reported to the Audit Committee.

## statement on internal control



### other key elements of the system of internal control

Apart from the above, the other key elements of the Group's internal control system which have been reviewed and approved by the Board are described below:

#### (a) Policies, Procedures and Limits of Authority

- Clearly defined delegation of responsibilities to committees of the Board and to management including organisation structures and appropriate authority levels; and
- Clearly documented internal policies, standards and procedures are in place and regularly updated to reflect changing risks or resolve operational deficiencies. All policies and standards are approved by the Board and cases of non-compliance are reported to the Board and Audit Committee by exception. Reliance is also placed on the Group's Internal Audit as well as the CSA approach.

#### (b) Strategic Business Planning, Budgeting and Reporting

- Regular and comprehensive information provided by management for monitoring of performance against strategic plan, covering all key financial and operational indicators. On a quarterly basis, the Managing Director reviews with the Board on all issues covering, but not restricted to, strategy, performance, resources and standards of business conduct;
- Detailed budgeting process established requiring all business units to prepare budgets annually which are discussed and approved by the Board; and
- Effective reporting systems which expose significant variances against budgets and plan are in place to monitor performance. Key variances are followed up by management and reported to the Board.

#### (c) Insurance and Physical Safeguard

- Adequate insurance and physical security of major assets are in place to ensure that the assets of the Group are sufficiently covered against any mishap that will result in material losses to the Group.

#### (d) Top Team Meetings

- Top Team Meetings, which are senior management meetings, are scheduled as and when required, to review, identify, discuss and resolve strategic, operational, financial and key management issues.

#### (e) Risk and Control Workshops

- Our employees' attitude towards, and in understanding the Group's risk management process is as important as having good systems and policies in place in achieving a robust internal control system. To achieve this, risk awareness workshops and trainings were carried out for employees for them to understand the significance of risk management and internal controls, and its impact on their day to day activities. The workshops included an overview of organisations risk management framework and process, importance of internal controls, types of controls, design and assessment of the effectiveness of internal controls.

#### (f) Other Matters

- Regular meetings are held between the Finance Director and analysts with a formal presentation conducted on the day the financial results are released after Board's approval to ensure a transparent relationship and open dialogue with investors and shareholders;
- Written declaration from all management personnel confirming their compliance with the Group's Standards of Business Conduct and where conflicts of interest situations are disclosed; and
- Written declaration from the Finance Director and Managing Director confirming their compliance with the Group's Standards of Internal Control.

The system of internal control is satisfactory and has not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report 2009.

**This Statement is made in accordance with the resolution of the Board of Directors dated 11 February 2010.**

### review of the statement by external auditors

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed this Statement on Internal Control. Their review was performed in accordance with Recommended Practice Guide (RPG) 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board had adopted in their review of the adequacy and integrity of internal control of the Group. RPG 5 does not require the external auditors to, and they did not, consider whether this Statement covers all risk and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures.



**Datuk Oh Chong Peng**  
Chairman



**Tan Sri Abu Talib bin Othman**  
Member



**James Richard Suttie**  
Member



**Dato' Ahmad Johari bin Tun Abdul Razak**  
Member

### membership and attendance

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings during 2009 are as follows:

Composition of Audit Committee	Number of Audit Committee Meetings		%
	Held	Attended	
<b>Datuk Oh Chong Peng</b> Chairman (Independent Non-Executive Director)	4	4	100
<b>Tan Sri Abu Talib bin Othman</b> (Independent Non-Executive Director)	4	4	100
<b>James Richard Suttie</b> (Non-Independent Non-Executive Director)	4	4	100
<b>Dato' Ahmad Johari bin Tun Abdul Razak *</b> (Independent Non-Executive Director)	3	3	100

\* Dato' Ahmad Johari bin Tun Abdul Razak was appointed on 5 March 2009 after the Audit Committee Meeting in February 2009

The Audit Committee convened 4 meetings during the year, which were attended by all the members except for Dato' Ahmad Johari bin Tun Abdul Razak who attended 3 out of the 4 meetings in 2009 as he was only appointed as a member of the Audit Committee on 5 March 2009.

Further, upon invitation by the Audit Committee, the Managing Director, Finance Director, Head of Internal Audit and representatives of the external auditors attended all the meetings. From time to time other members of the senior management also attended Audit Committee meetings upon invitation by the Audit Committee.

All members of the Audit Committee are financially literate and are able to analyse and interpret financial statements to effectively discharge their duties and responsibilities as members of the Audit Committee.

## audit committee report



## composition and terms of reference

### a. Members

The Audit Committee shall be appointed by the Board of Directors and shall comprise not less than 3 members. All members including the Chairman are Non-Executive Directors and the majority shall be independent directors.

At least 1 member of the Audit Committee shall be a member of the Malaysian Institute of Accountants or if he is not a member, he must have at least 3 of years' working experience and

- a. has passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967; or
- b. is a member of one of the associations of accountants specified in Part II of the said schedule; or
- c. has a degree/masters/doctorate in accounting or finance and at least 3 years' post qualification experience in accounting or finance; or
- d. is a member of a professional accountancy organisation which has been admitted as full members of the International Federation of Accountants and at least 3 years' post qualification experience in accounting or finance; or
- e. at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

No alternate director shall be appointed as a member of the Audit Committee. The Board shall review the terms of office and performance of the members of the Audit Committee at least once every 3 years to determine whether the members have carried out their duties in accordance with their terms of reference.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of subparagraph 15.9(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements), the Board shall fill the vacancy within 3 months from the date of the vacancy.

### b. Chairman

The Chairman of the Committee shall be approved by the Board of Directors and shall be an Independent Non-Executive Director.

### c. Quorum

A quorum shall be formed with 2 members and shall comprise Independent Directors.

### d. Meetings and minutes

The Audit Committee shall meet at least 4 times annually. However, at least once a year, the Audit Committee shall meet with the external auditors without the Executive Directors and management being present. This year, the Audit Committee had met twice with the external auditors without the presence of Executive Directors and management.

Other than in circumstances which the Chairman considers inappropriate, the Finance Director and Head of Internal Audit and a representative of the external auditors attends all meetings of the Audit Committee to make known their views on any matter under consideration by the Audit Committee, or which in their opinion, should be brought to the attention of the Audit Committee. The Audit Committee may, as and when necessary, invite other members of the Board and any of the senior management to attend their meetings.

The Company Secretary shall be the Secretary of the Audit Committee and is responsible to record, prepare and circulate the minutes of the meetings of the Audit Committee and ensure that the minutes are properly kept and produced for inspection if required. The Audit Committee shall report to the Board and its minutes tabled and noted by the Board.

### e. Authority

The Audit Committee is authorised by the Board to review any activities within the Audit Committee's terms of reference. The Audit Committee is authorised to seek any information it may require from any Director or members of the management and has full and unrestricted access to any information pertaining to the Group and the management, and all employees of the Group are required to comply with the requests made.

The Audit Committee shall obtain external professional advice and secure the attendance of outsiders with relevant experience and expertise deemed necessary, the expenses of which, to be borne by the Company.

In the event that any member of the Audit Committee needs to seek external professional advice in furtherance to his duties, he shall first consult with and obtain approval of the Chairman of the Audit Committee.

The Audit Committee shall have direct communication channels and be able to convene meetings with the external auditors without the presence of the non-independent members of the Audit Committee, whenever deemed necessary.

## responsibilities and duties

The responsibilities and duties of the Audit Committee are:

### a. Financial Reporting

- To review quarterly and annual financial statements of the Company, focusing particularly on:
  - any significant changes to accounting policies and practices;
  - significant adjustments arising from the audits;
  - compliance with accounting standards and other legal requirements; and
  - a going concern assumption.





## b. Related Party Transactions

- To review any related party transactions and conflict of interest situations that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

## c. Audit Reports

- To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities and the existence of an Internal Audit unit and summary of the activities of that unit for inclusion in the Annual Report; and
- To review the Board's statements on compliance with the Malaysian Code on Corporate Governance (Revised 2007) for inclusion in the Annual Report.

## d. Internal Control

- To consider annually the Business Risk Management Framework adopted within the Group and to be satisfied that the methodology employed allows the identification, analysis, assessment, monitoring and communication of risks in a regular and timely manner that will allow the Group to minimise losses and maximise opportunities;
- To ensure that the system of internal control is soundly conceived and in place, effectively administered and regularly monitored;
- To cause reviews to be made of the extent of compliance with established internal policies, standards, plans and procedures including for example, the Group's Standards of Business Conduct;
- To obtain assurance that proper plans for control have been developed prior to the commencement of major areas of change within the Group; and
- To recommend to the Board steps to improve the system of internal control derived from the findings of the internal and external auditors and from the consultations with the Audit Committee itself.

## e. Internal Audit

- To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group. Specifically:
  - to review the internal audit plans and to be satisfied as to their consistency with the Business Risk Management Framework used and adequacy of coverage;
  - to be satisfied that the Internal Audit unit within the Group has the proper resources and standing to enable them to complete their mandates and approve audit plans;
  - to review status reports from Internal Audit and ensure that appropriate actions have been taken to implement the audit recommendation;
  - to recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified;

- to ensure Internal Audit has full, free and unrestricted access to all activities, records, property and personnel necessary to perform its duties; and
- to request and review any special audit it deemed necessary.

## f. External audit

- To review the external auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditors. The Audit Committee will consider a consolidated opinion on the quality of external auditing at 1 of its meetings;
- To review with the external auditors the Statement on Internal Control of the Group for inclusion in the Annual Report;
- To review any matters concerning the appointment and re-appointment, audit fees and any questions of resignation or dismissal of the external auditors;
- To review and evaluate factors related to the independence of the external auditors and assist them in preserving their independence;
- To be advised of significant use of the external auditors in performing non-audit services within the Group, considering both the types of services rendered and the fees, such that their position as auditors are not deemed to be compromised; and
- To review the external auditors' findings arising from audits, particularly any comments and responses in management letters as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.

## g. Other matters

- To act on any other matters as may be directed by the Board.

## summary of activities 2009

In 2009, the Audit Committee carried out its duties in accordance with the terms of reference of the Audit Committee.

During the year 2009, the Audit Committee carried out the following activities:

### a. Financial Reporting

- Reviewed the quarterly and annual financial statements of the Company and the Group with the Finance Director and Managing Director, focussing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements before recommending them to the Board of Directors for approval.
- Discussed and noted the new International Financial Reporting Standards (IFRS) which will be adopted into the quarterly and annual financial reporting of the Group in 2010.





**b. Internal Control (Risk Management)**

- Reviewed the Group's Risk Management Programme, including the top 20 risk for the Group, Risk Management Programme work plan, insurance programme, security and safety matters.
- Reviewed and recommended to the Board steps to improve the Company's internal control systems derived from the findings of the internal and external auditors.
- Received updates on breaches of the Standards of Business Conduct and whistle blowing incidents.

**c. Internal Audit**

- Reviewed internal audit plans and satisfied with their consistency with the Business Risk Management Framework used and adequacy of coverage.
- Reviewed status reports from internal audit to ensure that appropriate actions had been taken to implement the audit recommendations.

**d. Related Party Transactions**

- Reviewed the recurrent related party transactions entered into by the Company, its subsidiaries and the British American Tobacco Group.

**e. External Audit**

- Reviewed with the external auditors the Company's Statement on Internal Control before recommending the same for inclusion in the Company's Annual Report 2009.
- Reviewed with the external auditors the Group's quarterly and annual financial statements with the Finance Director and Managing Director, focusing on findings arising from audits as well as assistance given by the employees of the Group before recommending them to the Board of Directors for approval.
- Reviewed the external auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditors.
- Reviewed the external auditors' findings arising from audits, as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.

**internal audit function**

The Group has a well established internal audit unit, which reports to the Audit Committee and supports the Audit Committee in reviewing the effectiveness of the Company's internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives.

Internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the Company's corporate governance framework and an efficient and effective global risk management framework to provide assurance over Group strategy delivery and change management initiatives.

The Head of Internal Audit reports directly to the Audit Committee and has direct access to the Chairman of the Audit Committee on all matters of control and audit. All proposals by management regarding the appointment, transfer and removal of the Head of Internal Audit of the Group shall require prior approval of the Audit Committee. Any inappropriate restrictions on audit scope are to be reported to the Audit Committee.

The Audit Committee approves the internal audit plan during the first Audit Committee meeting each year. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of internal audit covers the audits of all units and operations, including subsidiaries.

The internal audit function adopts a risk-based approach towards the planning and conduct of audits which is consistent with the Group's established framework in designing, implementing and monitoring of its control systems.

Other main activities performed by the internal audit are as follows:

- review of the approval procedures in respect of recurrent related party transactions; and
- undertake special reviews requested by the Audit Committee and/or management.

In 2009, the Company's internal control systems were satisfactory and had not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report 2009.

In November 2009, an Audit Committee effectiveness survey had been carried out with results demonstrating improvements in the overall level of effectiveness particularly in the areas pertaining to the Committee's governance process and the business risk reviews.

**This Audit Committee Report is made in accordance with the director's circular resolution dated 11 February 2010.**



An effective risk management framework is essential in managing the diverse risks faced by the Group. British American Tobacco Malaysia's Board of Directors has, through the Audit Committee, established a Risk Management Team to proactively manage the risks of the Group.

The business risks of the Group are affected by a number of factors, not all of which are within the Group's control. The externally driven challenges, together with general business risk exposures such as corporate reputation, security, environment, health and safety issues, product quality and information technology are constantly reviewed as part of the Group's Enterprise Risk Management programme.

The Group adopts a proactive Enterprise Risk Management programme with the following objectives:

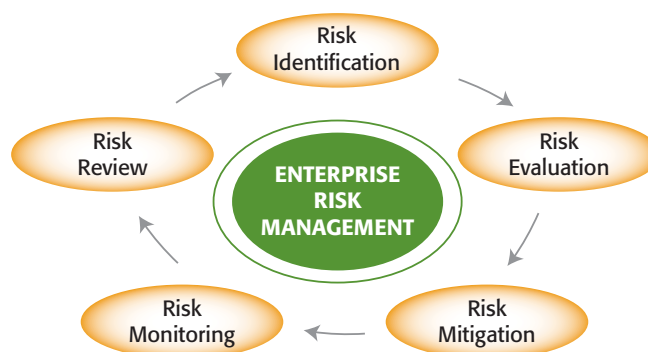
- Ensuring the continuity of its supply to consumers at all times
- Protecting its assets and reputation
- Preserving the safety and health of its employees
- Ensuring that the Group's operations do not impact negatively on its neighbours and the environment
- Protecting the interests of all other stakeholders
- Ensuring compliance with the Group's policies and guidelines and all applicable laws
- Promoting an effective risk awareness culture where risk management is an integral aspect of the Group's management systems

The Risk Management Team, headed by the Finance Director and comprising senior managers from all functions of the Group is entrusted to drive the Enterprise Risk Management programme. The team's responsibilities are to:

- Steer the Group's enterprise risk management programme
- Promote a pro-active risk awareness culture in the Group
- Conduct an annual review of the business risks
- Coordinate the development of risk mitigation action plans
- Develop and update business continuity plans for key business risks
- Plan and coordinate the testing of business continuity plans
- Organise training and education for employees on risk management
- Monitor the results of key performance indicators
- Ensure good corporate governance

Risk Management is firmly embedded in the Group's management system and is every employee's responsibility.

The Group's Enterprise Risk Management process comprises five phases, namely:



In the risk identification process, all possible business risks are identified.

## report on corporate risk management



The identified business risks are then evaluated based on the matrix below:

- **LIKELIHOOD** of the risk crystallising
- **SEVERITY** of the consequence
- Degree of internal control and risk management measures in place.

		LIKELIHOOD			
		Low	Medium Low	Medium High	High
SEVERITY	High	HIGH	HIGH	HIGH	HIGH
	Medium High	MEDIUM	MEDIUM	HIGH	HIGH
	Medium Low	LOW	LOW	MEDIUM	MEDIUM
	Low	LOW	LOW	LOW	MEDIUM

The outcome of the risk identification and evaluation process is a risk register which documents all identified business risks, their risk levels as well as action plans to manage these business risks.

This categorisation of business risks enables the Group to allocate its resources more effectively to deal with the different levels of business risks. A combination of risk management measures are then selected to manage these business risks:

RISK MANAGEMENT MEASURES	SUB-CATEGORY	EXAMPLES
ACCEPT	Acceptance	Accept the risk as it is rated, with no further action and maintain the control procedures that are already in place.
RETAIN	Loss prevention	Implement proactive risk mitigation (control measures) to reduce likelihood of the risk crystallising. The risk should remain unchanged until the new control is in place. <i>Possible actions:</i> <ul style="list-style-type: none"> <li>• Quality assurance</li> <li>• Environment, health and safety</li> <li>• Preventive maintenance</li> <li>• Security</li> <li>• Financial controls</li> <li>• Project management</li> <li>• Training and education</li> <li>• Supervision</li> <li>• Research and development</li> </ul>
	Loss reduction	Implement active risk mitigation (control measures) to reduce severity of consequences, if any. <i>Possible actions:</i> <ul style="list-style-type: none"> <li>• Business continuity planning</li> <li>• Emergency response planning</li> <li>• Separation of exposures</li> <li>• Duplication of exposures</li> <li>• Diversification</li> <li>• Portfolio planning</li> </ul>
TRANSFER	Insurance	Purchase insurance for insurable risks e.g. fire, life, theft etc.
	Contract	Protection clauses in contracts e.g. indemnity clauses etc.
	Sharing of risks	Joint venture or partnerships
	Outsourcing	Third party to assume risk

Ongoing risk monitoring is conducted to review the effectiveness of risk mitigation measures put in place for all identified business risks and corrective actions taken where necessary.

The Group's Enterprise Risk Management programme is subjected to periodic reviews to ensure that the policy and objectives of the programme remain applicable and effective under changing market and regulatory environment. These are complemented by internal control practices such as the statement of compliance with the Malaysian Code of Corporate Governance and the key control checklist of the Company's holding company, British American Tobacco p.l.c.



### **promotion of risk awareness**

Risk communication is equally important and forms an integral part of the risk management activity as it focusses on the dissemination of risk information to appropriate levels of employees and stakeholders. Appropriate channels are available for employees to provide feedback on risk management issues and suggestions for improvement.

In 2009, risk awareness induction programmes were carried out by the Risk Management Team for new staff. The induction programme was aimed at educating management staff on the Group's approach to risk management and internal controls, and provided a forum to enhance the participants' knowledge on risk management and their role in managing the Group's risks.

### **review of the group's enterprise risk management programme**

The Risk Management Team met three times during the year, in February, April and August 2009 to review the Group's risk profile and progress of the business continuity plans. The risk registers were also individually reviewed by the respective functions on a quarterly basis.

During the year, business continuity plans tested were the factory emergency response plan, Information Technology disaster recovery plan and disaster recovery plan for Direct Store Sales centres. Other business continuity plans such as head office site recovery plan and wrapping material supply plan were reviewed and updated.

In August 2009, the Risk Management Team together with senior managers updated the risk register and risk mitigation action plans. The Top Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and November 2009. The briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans testing.

### **key risks of the group**

This section describes some of the key risks that may affect the Group and provides a brief description of the risk mitigation measures in place to manage these risks. It is not the intention to provide an extensive analysis of all the risks affecting the Group and not all the risks identified are within the control of the Group. There may also be other risks besides those mentioned which may affect the performance of the business. Some risks may be unknown at present and others, currently regarded as immaterial could turn out to be material in the future.

The risks described in this section and the risk mitigation plans should be considered in the context of the Group's overall risk management and internal control framework which is addressed in the Report on Corporate Risk Management and Statement on Internal Control.

Major risks include:

- Withdrawal of packs less than 20 sticks on 1 June 2010 will have an impact on the Group's operating profits. The Group has in place measures to minimise the impact resulting from the withdrawal of packs less than 20 sticks, such as the introduction of the new DUNHILL Reloc pack.
- Illicit cigarette trade, on which applicable taxes are evaded, represent a significant and growing threat to the legitimate tobacco industry. A dedicated team is established within the Group to proactively manage this risk through engagement with relevant stakeholders and to create awareness on the impact of this growing threat.
- The liberalisation of import taxes under the auspices of the ASEAN Free Trade Area and growth of exceptionally low priced cigarette segment could result in new low priced entrants into the industry. The Group has in place measures such as continuous reviews of its brand portfolio in line with the changing landscape to mitigate the potential adverse impact of an influx of exceptionally low priced cigarettes.
- High levels and continued increase of excise and taxes could impact the volumes of the legal industry whilst fuelling illicit trade. The Group maintains an excise and pricing strategy including contingency plans to manage the impact of significant excise changes.
- The Group operates under increasingly stringent regulatory regimes in line with the Framework Convention of Tobacco Control. The Group has in place regulatory strategies to develop plans to address these issues in a manner consistent with applicable laws.
- The risk of hijack/theft of goods in transit resulting in losses to the Group's property is managed through enhanced security measures.

The key risks identified above are forward looking statements and could be affected by a wide range of variables.



### crisis management team

In addition to the Risk Management Team, the Group also established a Crisis Management Team to provide leadership and timely decision making in the event of a crisis. The Crisis Management Team is assisted by the Crisis Response Team, which is entrusted to respond immediately to the crisis as well as the Communications Team, which coordinates the communication strategy with key stakeholders.

The Crisis Management Team is represented by the Top Team, whereas the Crisis Response Teams are made up of relevant staff members who are experts in managing the specific crisis and vary depending on the crisis that is being managed.

In 2009, the Crisis Management and Crisis Response Team were activated to manage crisis which included the following:

- A potential shortage of leaf supply occurred with torrential rains bringing floods to the primary leaf growing areas in the state of Kelantan. The Crisis Response Team was activated to identify the impact of the damage to the crop and source for alternate supply of leaf. The Global Leaf Pool unit of British American Tobacco p.l.c. was utilised to source for alternative leaf supply, whilst the Group pledged to aid the farmers to help overcome the crisis at a cost of approximately up to RM10 million.
- The Group took proactive steps during the Influenza A(H1N1) nationwide outbreak by providing constant updates and driving awareness programmes on preventive measures to be taken by employees. Preventive products such as face masks and hand sanitizers were also provided to employees.

The above crises were managed through the dedicated crisis response teams, reporting to the crisis management team, in line with established business continuity plans.







# WINNING

In 2009, we have continued to invest in recruitment, training and retention of the right talent to deliver our vision whilst providing opportunities for our employees to develop their career with the Company. We believe our strategies will ensure a sustainable talent pipeline for British American Tobacco Malaysia's long-term business sustainability as we aim to be recognised as the Best Employer in Malaysia.

## redefining employer value proposition

In 2009, the Company has redesigned and subsequently communicated our new employer value proposition – *Bring Your Difference* to our employees.

The core concept of *Bring Your Difference* describes our diverse workforce and the strength they lend to the organisation via sharing of new ideas and experiences. The Company also identified core messages that will be communicated both internally and externally to advocate our winning employer brand, namely:

1. Difference is an advantage – helping us to turn challenges into opportunities, to lead from the front, and making us one of the country's best performing companies with a strong track record and a bright future
2. Having colleagues from a wide diversity of cultures and backgrounds and who support each other's success makes us unique
3. Empowering teams to create fresh ideas and different experiences, keeping us sharp, innovative and ahead of the game
4. Be competitively rewarded for the difference each of us make, so we can see tangible results of our contribution in all ways

Our recruitment collaterals and information available in our corporate website have been redesigned and deployed to drive external advocacy. Internally, the core messages have been included into monthly departmental updates to ensure our employees are aware of the Company's unique value proposition.

## redefining values to strengthen our winning organisation



# ORGANISATION

## TALENT SOURCING

Our talent sourcing initiatives through participation in local career and recruitment fairs.





### sourcing the right talent

Our talent sourcing strategy in 2009 focussed on attracting the right talent as we aim to strengthen our Winning Organisation.

We participated in local career and recruitment fairs, placed appropriate recruitment advertisements and worked with reputable talent agencies to find the right people for our organisation. New relationships were also built with United Kingdom and Eire (Ireland) Council for Malaysian Students (UKEC) to create further awareness of what British American Tobacco Malaysia has to offer to graduates who are interested in joining the Company. A unique talent spotting competition was also organised for students from 10 leading universities and colleges in Malaysia to identify potential hi-calibre undergraduates who possess the set of skills required to join the Company as a Management Trainee.

Our talent sourcing drive is an on-going process and we will continue to focus on finding the right talent to be part of our Winning Organisation.

### recognising long serving employees

British American Tobacco Malaysia believes in recognition and appreciation of its valued employees. The annual Long Service Award event was held to recognise employees and also retiring employees who have shown long term dedication and commitment to the Company over the years.

In 2009, a total of 71 recipients were awarded for serving between 10 to 30 years in the Company and amongst them were 10 retirees. The award ceremony was also attended by the Chairman of the Company and the top management team.

### continuous talent development

British American Tobacco Malaysia remains committed to develop its employees to become a truly world class workforce. Our talent development initiatives this year focussed on building leadership skills in order to drive results for the business. Internal learning and development programmes were initiated to train our employees and develop leadership skills at all levels.

The Team Leadership and Development Workshop is a key programme that has been rolled out in 2009 to managers and is focussed on furnishing leaders with the practical tools to manage their teams in line with best practices. Various efforts were made to develop a pool of internal trainers comprising of senior managers from various functions in the Company to become role models who can further train employees on the different modules.

Our commitment also extends to the development of our non-management employees. We have rolled out two modules under the Achieve Continuous Excellence Academy which focussed on leadership at all levels and personal change awareness programme.

**1**  
Giving recognition to long serving employees.





Further testaments to our commitment in talent development were the opportunities extended to our top performing employees to attend international training programmes as one of the options for learning. Cross-market attachment opportunities were also given to management trainees to gain exposure of best practices in other end markets.

We believe our initiatives provided a more holistic approach to talent development in British American Tobacco Malaysia.

### rewarding our employees

At British American Tobacco Malaysia, we recognise the need to attract, motivate and retain our talents as well as rewarding them for successes. Multiple programmes were implemented throughout 2009 to drive our strategic rewards agenda:

- **market competitiveness**

We completed an external market benchmarking review on our total reward portfolio which includes compensation, benefits, performance recognition and work life balance elements to ensure our total reward portfolio remain competitive.

- **pay for performance**

We enhanced our salary increment and performance bonus matrix to further encourage employees to perform by ensuring they are competitively rewarded.

- **employee recognition**

In line with the regional best practice, we gave recognition and rewarded 134 employees who went the extra mile in delivering our business goals and strategies.

- **education and branding**

In order to communicate our reward structure and key milestones to ensure employees better understand the value and structure of their total reward component, a series of communication sessions were conducted for all employees including our employees who have been seconded out to other British American Tobacco markets.

### acting on your voice

As a result of the Your Voice, British American Tobacco Malaysia's employee engagement survey that was conducted in year 2008, the Company has actively responded to the survey by rolling out several key initiatives in 2009 to address key areas highlighted from the survey results. Action plans have been developed and deployed to address the issues highlighted.

We have launched an enterprise project called "Project BOOST" (Breaking Out Of Safe Territories) which is primarily focussed on enhancing leadership at all levels across all functions. Various activities such as training programmes, 360 degree feedback and role-modelling task for senior managers were introduced and implemented.

These initiatives are on-going and the effectiveness of these action plans will be seen in the next employee engagement survey which will be conducted in year 2010.

### employees' well being

British American Tobacco Malaysia believes in work life balance for its employees and as such, the Company has provided several platforms to continuously keep its employees energised. Our Sports Club, which is run by two full-time employees, has organised various events throughout 2009 including sporting tournaments, expeditions and a treasure hunt. We also included a 'Share n Tell' portal in our intranet where employees are encouraged to share about their life after work to build a social network across departments and locations within the Company.

The Company continued to be committed to the health of its employees and this was demonstrated through continued health care support and education initiatives such as the provision of medical surveillance services, Cardiac Pulmonary Resuscitation and First Aid Programme workshops and a series of health education sessions.

Additionally, with the increasing attention to the Influenza A(H1N1) pandemic that swept Malaysia this year, British American Tobacco Malaysia took proactive measures by constantly providing latest updates and made available seasonal flu jabs and face masks to all employees and dependants as well as placing hand sanitizers at various entry points within the Company's premises.



### THE BRING YOUR DIFFERENCE COMPETITION

In July 2009, we have initiated a unique talent spotting competition, the *Bring Your Difference* competition, to identify potential hi-calibre undergraduates who possess the set of skills required to join the Company as a Management Trainee.

The 2-day competition which also tested analytical, creativity and teamwork skills of

eligible undergraduates received more than 400 applications from 10 leading universities and colleges nationwide.

Winners were awarded and 15 selected individuals were awarded a 'fast pass', a faster route to join the Company's Global Management Trainee Programme upon their graduation from their institutions of higher learning.





**SWITZERLAND**  
**Anthony Yong**  
Head of Finance

**PAKISTAN**  
**Shaiful Bahari Mahpar**  
Area Head of Corporate & Regulatory Affairs

**our people around the world**





We believe in developing our talent and providing opportunities for our employees to gain international experience through secondment programme. This programme aims to provide our employees with exposure to best practices in other British American Tobacco markets whilst contributing back to those markets.

Listed here are our employees who have been seconded out from Malaysia to other British American Tobacco operations worldwide as part of their development into leadership roles.

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## reports and financial statements

## directors' report

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2009.

### principal activities

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

There have been no significant changes in the nature of the Group's and the Company's activities during the financial year.

### financial results

	Group RM'000	Company RM'000
Profit for the financial year	746,784	649,701

### dividends

	RM'000
The dividends paid or declared by the Company since 31 December 2008 were as follows: In respect of the financial year ended 31 December 2008, as shown in the Directors' report of that year: Final dividend of 76.00 sen per share, tax exempt under the single-tier system, paid on 8 May 2009	217,003
In respect of the financial year ended 31 December 2009: First interim dividend of 113.00 sen per share, tax exempt under the single-tier system, paid on 20 August 2009	322,649
Second interim dividend of 61.00 sen per share, tax exempt under the single-tier system, paid on 17 December 2009	174,173
	496,822

The Directors now recommend the declaration of a net final dividend of 62.00 sen per share, tax exempt under the single-tier system, amounting to RM177,028,600 in respect of the financial year ended 31 December 2009 which, subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid on 7 May 2010 to shareholders registered in the Company's Register of Members at the close of business on 21 April 2010.

### reserves and provisions

All material transfers to and from reserves and provisions during the financial year are shown in the financial statements.

## directors' report

### directors

The Directors who held office during the period since the date of the last report are as follows:

Tan Sri Abu Talib bin Othman (Chairman)  
Toh Ah Wah

*(appointed Non-Independent Executive Director on 5 March 2009  
and appointed Managing Director on 1 October 2009)*

Jack Marie Henry David Bowles  
Dato' Ahmad Johari bin Tun Abdul Razak  
Stephen James Rush  
Dato' Chan Choon Ngai  
James Richard Suttie  
Datuk Oh Chong Peng

*(resigned on 30 September 2009)  
(appointed on 5 March 2009)*

In accordance with Articles 97(1) and (2) of the Company's Articles of Association, Dato' Chan Choon Ngai and Stephen James Rush will retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

Tan Sri Abu Talib bin Othman, having attained the age of seventy, will retire in accordance with Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting. The Board recommends that Tan Sri Abu Talib bin Othman be re-elected in accordance with Section 129(6) of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting.

### directors' benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate pursuant to provisions under the Companies Act, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. is deemed to be the ultimate holding company) as disclosed in Note 30 to the financial statements.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than by virtue of transactions entered into in the ordinary course of business as disclosed in Note 27 to the financial statements.

### membership of the remuneration committee

The Remuneration Committee comprise mainly Non-Executive Directors and the members of the Remuneration Committee as at 31 December 2009 are:

Tan Sri Abu Talib bin Othman (Chairman, Independent Non-Executive Director)  
Datuk Oh Chong Peng (Independent Non-Executive Director)  
James Richard Suttie (Non-Independent Non-Executive Director)  
Toh Ah Wah (Non-Independent Executive Director)  
Jack Marie Henry David Bowles (Non-Independent Executive Director)

*(appointed on 1 October 2009)  
(resigned on 30 September 2009)*

**directors' interests in shares**

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and its related corporations are as follows:

	Number of ordinary shares of 50 sen each in the Company			
	At 1.1.09/ Date of appointment	Bought	Sold	At 31.12.09
<b>The Company</b>				
<b>Shareholdings in the name of the Director:</b>				
Tan Sri Abu Talib bin Othman	81,000	—	40,000	41,000
Datuk Oh Chong Peng	1,000	—	—	1,000
James Richard Suttie	1,500	—	—	1,500
Dato' Chan Choon Ngai	1,000	—	—	1,000
<b>Shareholdings in which the Director is deemed to have an interest:</b>				
James Richard Suttie	3,000	—	—	3,000
Dato' Chan Choon Ngai	6,000	—	—	6,000

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.09/ Date of appointment	Bought/ Granted	Sold	At 31.12.09
<b>Ultimate Holding Company – British American Tobacco p.l.c.</b>				
<b>Shareholdings in the name of the Director:</b>				
James Richard Suttie	7,154	—	—	7,154
Dato' Chan Choon Ngai	23,483	14,225	12,275	25,433
Stephen James Rush	2,286	14,278	13,115	3,449
Toh Ah Wah	30,313	59,077	55,966	33,424
<b>Shareholdings in which the Director is deemed to have an interest:</b>				
James Richard Suttie	7,073	—	—	7,073

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.09/ Date of appointment	Awarded	Vested	At 31.12.09
<b>Ultimate Holding Company – British American Tobacco p.l.c.</b>				
<b>Deferred Share Bonus Scheme &amp; International Share Reward Scheme:</b>				
<b>Shareholdings in the name of the Director:</b>				
Dato' Chan Choon Ngai	4,830	3,552	1,950	6,432
Stephen James Rush	6,308	3,214	2,299	7,223
Toh Ah Wah	11,728	6,629	3,111	15,246



## directors' report

### directors' interests in shares (continued)

Ultimate Holding Company – British American Tobacco p.l.c.	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.09/ Date of appointment	Granted	Exercised	Lapsed	At 31.12.09
<b>Shareholdings in the name of the Director, Exercise Price &amp; Expiry Date:</b>					
Dato' Chan Choon Ngai					
£5.98 (19 March 2013)	7,392	—	—	—	7,392
£8.09 (17 March 2014)	5,163	—	—	—	5,163
Nil (17 May 2015)	6,857	—	6,857	—	—
Nil (15 March 2016)	5,418	—	5,418	—	—
Nil (13 March 2017)	5,178	—	—	—	5,178
Nil (13 March 2018)	4,811	—	—	—	4,811
Nil (27 March 2019)	—	7,784	—	—	7,784
Stephen James Rush					
£5.98 (19 March 2013)	6,020	—	6,020	—	—
Nil (15 March 2016)	1,664	—	1,664	—	—
Nil (13 March 2017)	1,673	—	—	—	1,673
Nil (13 March 2018)	5,478	—	—	—	5,478
Nil (27 March 2019)	—	6,602	—	—	6,602
Toh Ah Wah					
£5.00 (23 September 2009)	10,728	—	10,728	—	—
Nil (10 March 2010)	18,110	—	18,110	—	—
Nil (12 March 2012)	8,564	—	8,564	—	—
£6.39 (20 March 2012)	6,574	—	6,574	—	—
£5.98 (19 March 2013)	11,990	—	11,990	—	—
£8.09 (17 March 2014)	10,856	—	—	—	10,856
Nil (17 May 2015)	9,244	—	—	—	9,244
Nil (15 March 2016)	8,642	—	—	—	8,642
Nil (13 March 2017)	8,517	—	—	—	8,517
Nil (13 March 2018)	8,635	—	—	—	8,635
Nil (27 March 2019)	—	14,098	—	—	14,098

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c. are contained in Note 30 to the financial statements.

### statutory information on the financial statements

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

**statutory information on the financial statements (continued)**

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group or Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- (a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or Company for the financial year in which this report is made.

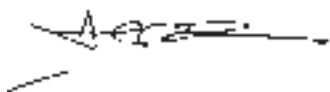
**ultimate holding company**

The Directors regard British American Tobacco p.l.c., which is incorporated in England and Wales, to be the ultimate holding company of the Company.

**auditors**


The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 11 February 2010.



**Toh Ah Wah**  
Managing Director

Petaling Jaya



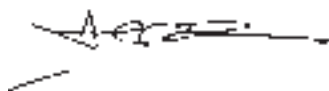
**Stephen James Rush**  
Finance Director

## statement by directors

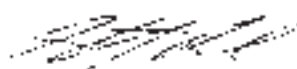
pursuant to section 169(15) of the companies act, 1965

We, TOH AH WAH and STEPHEN JAMES RUSH, two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 127 to 178 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2009 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with a resolution dated 11 February 2010.



**Toh Ah Wah**  
*Managing Director*

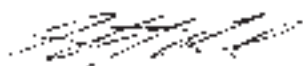


**Stephen James Rush**  
*Finance Director*

## statutory declaration

pursuant to section 169(16) of the companies act, 1965

I, STEPHEN JAMES RUSH, the Director primarily responsible for the financial management of British American Tobacco (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 127 to 178 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



**Stephen James Rush**  
*Finance Director*

Subscribed and solemnly declared by the abovenamed Stephen James Rush at Petaling Jaya in the state of Selangor on 11 February 2010.

Before me:



**Soong Foong Chee**  
*Commissioner for Oaths*  
Petaling Jaya

# **independent auditors' report** to the members

of British American Tobacco (Malaysia) Berhad (Incorporated in Malaysia) (Company No: 4372-M)

## **report on the financial statements**

We have audited the financial statements of British American Tobacco (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 127 to 178.

## **directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia, the MASB Approved Accounting Standard in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **opinion**

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2009 and of their financial performance and cash flows for the year then ended.

## independent auditors' report

to the members of British American Tobacco (Malaysia) Berhad (Incorporated in Malaysia) (Company No: 4372-M)

### report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of the subsidiary of which we have not acted as auditors, which is indicated in Note 14 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

### other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



**PricewaterhouseCoopers**  
[AF: 1146]  
Chartered Accountants



**Jayarajan A/L U. Rathinasamy**  
[2095/06/10(J)]  
Chartered Accountant

Kuala Lumpur  
11 February 2010



# income statements

for the financial year ended 31 december 2009

		Group		Company	
	Note	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
Revenue	2	<b>3,923,421</b>	4,135,220	<b>697,371</b>	832,650
Cost of sales		<b>(2,379,034)</b>	(2,465,472)	—	—
Gross profit		<b>1,544,387</b>	1,669,748	<b>697,371</b>	832,650
Other operating income		<b>5,739</b>	12,915	<b>1,907</b>	937
Distribution and marketing costs		<b>(362,381)</b>	(400,212)	—	—
Administrative expenses		<b>(141,819)</b>	(144,015)	<b>(19,714)</b>	(10,971)
Other operating expenses		<b>(12,791)</b>	(29,139)	<b>(805)</b>	(1,611)
Profit from operations	3	<b>1,033,135</b>	1,109,297	<b>678,759</b>	821,005
Finance cost – interest expense		<b>(27,823)</b>	(28,131)	<b>(27,823)</b>	(28,048)
Profit before tax		<b>1,005,312</b>	1,081,166	<b>650,936</b>	792,957
Tax expense	6	<b>(258,528)</b>	(269,483)	<b>(10,087)</b>	(44,076)
Profit for the financial year		<b>746,784</b>	811,683	<b>640,849</b>	748,881
Earnings per share (sen)	7	<b>261.5</b>	284.3	—	—
Net dividends per share (sen)	8	<b>236.0</b>	265.0	<b>236.0</b>	265.0

The accounting policies on pages 132 to 141 and the notes on pages 142 to 178 form an integral part of these financial statements.

# balance sheets

as at 31 december 2009

		Group		Company	
		2009 RM'000	2008* (As restated) RM'000	2009 RM'000	2008* (As restated) RM'000
	Note				
<b>Non current assets</b>					
Property, plant and equipment	9	431,117	438,624	18,934	24,297
Investment property	10	1,654	—	—	—
Leasehold land	11	19,952	20,455	1,013	1,109
Computer software	12	6,550	15,232	6,550	15,086
Goodwill	13	411,618	411,618	—	—
Subsidiaries	14	—	—	1,022,889	1,022,889
Deferred tax assets	15	19,295	4,978	8,520	4,978
Loan to a subsidiary	16	—	—	80,000	—
		890,186	890,907	1,137,906	1,068,359
<b>Current assets</b>					
Assets held for sale	17	4,288	20,638	1,950	—
Inventories	18	214,258	224,958	—	—
Receivables	19	164,712	257,818	237,809	283,944
Tax recoverable		—	33,604	—	33,604
Deposits, cash and bank balances	20	168,686	59,387	461	1,129
		551,944	596,405	240,220	318,677
<b>Current liabilities</b>					
Payables	21	219,088	285,737	466,339	406,003
Borrowings	22	—	250,000	—	250,000
Current tax liabilities		80,962	96,512	1	—
		300,050	632,249	466,340	656,003
<b>Net current assets/(liabilities)</b>		251,894	(35,844)	(226,120)	(337,326)
		1,142,080	855,063	911,786	731,033
<b>Capital and reserves</b>					
Share capital	23	142,765	142,765	142,765	142,765
Retained earnings		296,520	263,714	114,958	188,168
<b>Shareholders' funds</b>		439,285	406,479	257,723	330,933
<b>Non current liabilities</b>					
Borrowings	22	650,000	400,000	650,000	400,000
Post employment benefit obligations	24	6,043	5,297	4,063	100
Deferred tax liabilities	15	46,752	43,287	—	—
		1,142,080	855,063	911,786	731,033

\* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses of defined benefit plan, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

The accounting policies on pages 132 to 141 and the notes on pages 142 to 178 form an integral part of these financial statements.

# consolidated statement of changes in equity

for the financial year ended 31 december 2009

		Issued and fully paid ordinary shares of 50 sen each		Distributable	
	Note	Number of shares '000	Nominal value RM'000	Retained earnings* RM'000	Total RM'000
At 1 January 2009 as previously reported		285,530	142,765	264,009	406,774
Effect of change in accounting policy		—	—	(295)	(295)
At 1 January 2009 as restated		285,530	142,765	263,714	406,479
Defined benefit plan actuarial loss	24	—	—	(213)	(213)
Deferred tax on revalued land and buildings	15	—	—	60	60
Expense recognised directly in equity		—	—	(153)	(153)
Profit for the financial year		—	—	746,784	746,784
Dividends for financial year ended 31 December 2008		—	—		
– final	8	—	—	(217,003)	(217,003)
Dividends for financial year ended 31 December 2009		—	—		
– first interim	8	—	—	(322,649)	(322,649)
– second interim	8	—	—	(174,173)	(174,173)
At 31 December 2009		285,530	142,765	296,520	439,285
At 1 January 2008 as previously reported		285,530	142,765	203,147	345,912
Effect of change in accounting policy		—	—	675	675
At 1 January 2008 as restated		285,530	142,765	203,822	346,587
Defined benefit plan actuarial loss	24	—	—	(970)	(970)
Deferred tax on revalued land and buildings	15	—	—	123	123
Expense recognised directly in equity		—	—	(847)	(847)
Profit for the financial year		—	—	811,683	811,683
Dividends for financial year ended 31 December 2007		—	—		
– final		—	—	(31,694)	(31,694)
– final, tax exempt		—	—	(179,598)	(179,598)
Dividends for financial year ended 31 December 2008		—	—		
– first interim	8	—	—	(322,649)	(322,649)
– second interim	8	—	—	(217,003)	(217,003)
At 31 December 2008		285,530	142,765	263,714	406,479

\* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses of defined benefit plan, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

The accounting policies on pages 132 to 141 and the notes on pages 142 to 178 form an integral part of these financial statements.

## company statement of changes in equity

for the financial year ended 31 december 2009

		Issued and fully paid ordinary shares of 50 sen each		Distributable	
	Note	Number of shares '000	Nominal value RM'000	Retained earnings* RM'000	Total RM'000
At 1 January 2009 as previously reported		285,530	142,765	188,205	330,970
Effect of change in accounting policy		—	—	(37)	(37)
At 1 January 2009 as restated		285,530	142,765	188,168	330,933
Defined benefit plan actuarial loss	24	—	—	(234)	(234)
Expense recognised directly in equity		—	—	(234)	(234)
Profit for the financial year		—	—	640,849	640,849
Dividends for financial year ended 31 December 2008					
– final	8	—	—	(217,003)	(217,003)
Dividends for financial year ended 31 December 2009					
– first interim	8	—	—	(322,649)	(322,649)
– second interim	8	—	—	(174,173)	(174,173)
At 31 December 2009		285,530	142,765	114,958	257,723
At 1 January 2008 as previously reported		285,530	142,765	190,268	333,033
Effect of change in accounting policy		—	—	46	46
At 1 January 2008 as restated		285,530	142,765	190,314	333,079
Defined benefit plan actuarial loss	24	—	—	(83)	(83)
Expense recognised directly in equity		—	—	(83)	(83)
Profit for the financial year		—	—	748,881	748,881
Dividends for financial year ended 31 December 2007					
– final		—	—	(31,694)	(31,694)
– final, tax exempt		—	—	(179,598)	(179,598)
Dividends for financial year ended 31 December 2008					
– first interim	8	—	—	(322,649)	(322,649)
– second interim	8	—	—	(217,003)	(217,003)
At 31 December 2008		285,530	142,765	188,168	330,933

\* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses of defined benefit plan, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

The accounting policies on pages 132 to 141 and the notes on pages 142 to 178 form an integral part of these financial statements.

# cash flow statements

for the financial year ended 31 december 2009

		Group		Company	
	Note	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>Operating activities</b>					
Cash receipts from customers		3,927,189	4,071,077	19,107	19,172
Cash paid to suppliers and employees		(2,751,683)	(2,864,838)	—	—
Dividends received from subsidiaries		—	—	725,897	752,083
Cash from operations	25	1,175,506	1,206,239	745,004	771,255
Income tax (paid)/refunded		(251,266)	(251,489)	19,842	—
Net cash flow from operating activities		924,240	954,750	764,846	771,255
<b>Investing activities</b>					
Property, plant and equipment					
– additions		(107,162)	(101,536)	(3,662)	(7,295)
– disposals		8,862	9,132	1,025	1,795
Computer software					
– additions		(1,805)	(2,172)	(1,757)	(2,026)
– disposals		—	3	—	3
Disposals of assets held for sale		21,000	—	—	—
Interest income received		5,470	7,619	1,907	79
Net repayment from subsidiaries		—	—	58,279	114,691
Net cash flow (used in)/from investing activities		(73,635)	(86,954)	55,792	107,247
<b>Financing activities</b>					
Dividends paid to shareholders		(713,825)	(750,944)	(713,825)	(750,944)
Loan to subsidiary		—	—	(80,000)	—
Proceeds from issuance of medium-term notes		250,000	—	250,000	—
Repayment of medium-term notes		(250,000)	—	(250,000)	—
Repayment of commercial papers		—	(100,000)	—	(100,000)
Interest expense paid		(27,481)	(28,131)	(27,481)	(28,048)
Net cash flow used in financing activities		(741,306)	(879,075)	(821,306)	(878,992)
<b>Increase/(Decrease) in cash and cash equivalents</b>		<b>109,299</b>	<b>(11,279)</b>	<b>(668)</b>	<b>(490)</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>59,387</b>	<b>70,666</b>	<b>1,129</b>	<b>1,619</b>
<b>Cash and cash equivalents as at 31 December</b>	20	<b>168,686</b>	<b>59,387</b>	<b>461</b>	<b>1,129</b>

The accounting policies on pages 132 to 141 and the notes on pages 142 to 178 form an integral part of these financial statements.



# summary of significant accounting policies

for the financial year ended 31 december 2009

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**a. basis of preparation**

The financial statements of the Group and the Company are prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

The financial statements of the Group and Company have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results could differ.

**basis of consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year. Subsidiaries are those corporations in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiaries are consolidated using the purchase method of accounting.

The cost of an acquisition is measured as fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair values of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

**b. changes in accounting policies**

In 2009, the Group amended its treatment with regard to the recognition of actuarial gains and losses of retirement benefit schemes under FRS119 Employee Benefits. Previously, actuarial gains and losses that arose were recognised only to the extent that cumulatively they exceeded 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of the scheme assets, and that portion was recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. The Group believes that fully recognising actuarial gains and losses when they occur results in better presentation of the financial statements which is more in line with current market practice and expected financial reporting developments thus providing more comparable market information. Following the change in accounting policy, the Group now recognises actuarial gains and losses in the period in which they occur, within retained earnings.

## summary of significant accounting policies

for the financial year ended 31 december 2009

### b. changes in accounting policies (continued)

As a result of the change in treatment of actuarial gains and losses, comparatives have been restated as follows:

	As previously reported RM'000	Effects of changes in accounting policy RM'000	As restated RM'000
<b>Group</b>			
Post employment benefit obligations			
– at 31 December 2008	5,002	295	5,297
Retained Earnings			
– at 1 January 2009/31 December 2008	264,009	(295)	263,714
– at 1 January 2008	203,147	675	203,822
<b>Company</b>			
Post employment benefit obligations			
– at 31 December 2008	63	37	100
Retained Earnings			
– at 1 January 2009/31 December 2008	188,205	(37)	188,168
– at 1 January 2008	190,268	46	190,314

The new/revised standards, amendments to published standards and interpretations to published standards which have been issued by the MASB, but are not yet effective, and will have an impact on the Group are as follows:

- FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114<sub>2004</sub> Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group does not expect any changes arising from this standard as the chief operating decision maker relies on internal reports which are similar to those currently disclosed externally. The Group will apply this standard from financial periods beginning on 1 January 2010.
- FRS 139 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard from financial periods beginning on 1 January 2010. As allowed under the transitional provisions of FRS 139, the Group is exempted from having to disclose the possible impact on the application of this standard on the financial statements of the Group in the year of initial application.
- FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010). FRS 7 provides information to users of financial statements about an entity's exposure to risk and how the entity manages these risks. As allowed under the transitional provisions of FRS 7, the Group is exempted from having to disclose the possible impact on the application of this standard on the financial statements of the Group in the year of initial application. The Group will apply this standard from financial periods beginning on 1 January 2010.
- Amendments to FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 101 requires statement of comprehensive income that shows components of other comprehensive income not attributable to shareholders and specifies terminology changes. This standard only impacts the extent of disclosures in the financial statements. The Group will apply these amendments from financial periods beginning on 1 January 2010.

**b. changes in accounting policies (continued)**

- (e) Amendments to FRS 117 Leases (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 117 requires entities with existing leases of land and buildings (combined) to reassess the classification of land as a finance or operating lease. The Group will reclassify the existing leasehold land to property, plant and equipment following this reassessment. The Group will apply these amendments from financial periods beginning on 1 January 2010.

The new/revised standards, amendments to published standards and interpretations to published standards which have been issued by MASB, but are not yet effective, and will not have an impact on the Group are as follows:

- (a) FRS 1 First-time Adoption of Financial Reporting Standards
- (b) Amendments to FRS 1 First-time Adoption of Financial Reporting Standards
- (c) Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations
- (d) FRS 123 Borrowing Costs
- (e) FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- (f) IC Interpretation 9 Reassessment of Embedded Derivatives
- (g) IC Interpretation 10 Interim Financial Reporting and Impairment
- (h) IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions
- (i) IC Interpretation 13 Customer Loyalty Programmes
- (j) IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The above new/revised standards, amendments to published standards and interpretations to published standards are effective for annual periods beginning on or after 1 January 2010.

**c. revenue recognition**

Revenue earned from the sale of the Group's products is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance and after eliminating sales within the Group.

Revenue from sale of cigarettes, pipe tobaccos and cigars is presented at the invoiced value of goods sold, including all government duties and excluding sales taxes and trade discounts.

Other revenue earned by the Group and Company are recognised on the following basis:

- Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.
- Dividend income is recognised when the right to receive payment is established.
- Revenue from services rendered is recognised as and when the services are performed.

**d. property, plant and equipment**

Property, plant and equipment are initially stated at cost. Freehold land is stated at its 1983 valuation and buildings are stated at their 1983 valuation less depreciation as the Directors have applied the transitional provisions of MASB Approved Accounting Standards No. 16 (Revised) Property, Plant and Equipment. Accordingly, these valuations have not been updated. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the costs of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

## summary of significant accounting policies

for the financial year ended 31 december 2009

### d. property, plant and equipment (continued)

Freehold land is not depreciated as it has an infinite life. Depreciation on capital work in progress commences when the assets are ready for their intended use. Depreciation is provided to their residual values on all other property, plant and equipment on a straight line basis over their estimated useful lives, which are as follows:

Buildings	— 35 to 40 years
Machinery and equipment	— 10 to 14 years
Furniture and fittings (including merchandising equipment, computer equipment and peripherals)	— various periods not exceeding 10 years
Motor vehicles	— 5 years

Small value items are fully depreciated in the year of purchase.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the residual value of an asset increases to an amount equal or greater than the asset's carrying amount, the asset's depreciation charge is nil unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

### e. investment property

Investment property comprises non-owner occupied residence, office and warehousing space which are idle. Investment property is stated at cost less accumulated depreciation and impairment losses.

Investment property comprising buildings are depreciated to their residual values on a straight line basis over their estimated useful lives of 21 to 45 years.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or when the investment property meets the criteria to be reclassified as "Assets Held for Sale" in accordance with FRS 5.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.



**f. leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Leasehold land held for own use is classified as an operating lease and the up-front payment represents prepaid lease payments disclosed as Leasehold land within non-current assets. These up-front payments are expensed to the income statement on a straight line basis amortised over its lease term of 15 to 46 years.

Buildings under long term leases held for own use remain classified as property, plant and equipment as they are finance leases, where substantially all the risks and rewards incidental to their ownership is transferred to the Group. The leasehold buildings are depreciated on a straight line basis over their lease terms.

**g. assets held for sale**

Property, plant and equipment and investment property are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. These assets held for sale cease to be depreciated as their economic benefits are no longer consumed.

On disposal of an asset held for sale, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period of the disposal.

If there are changes to a plan of sale, the asset held for sale will be reclassified as property, plant and equipment or investment property with its carrying amount at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale and its recoverable amount at the date of the change to the plan of sale.

**h. intangible assets****(i) Goodwill**

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of the Group's share of the identifiable net assets at the date of acquisition.

The carrying amount of goodwill is reviewed for impairment, annually as well as more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**(ii) Computer Software**

Costs that are directly associated with identifiable and unique computer software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, and are not integral to other property, plant and equipment are recognised as intangible assets. These costs include the software development employee costs and an appropriate portion of relevant overheads. The computer software development costs recognised as assets are amortised upon completion of the computer software products on a straight line basis over their estimated useful lives of 3 years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

## summary of significant accounting policies

for the financial year ended 31 december 2009

### i. investments

Investments in subsidiaries are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

### j. inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined principally on a first-in first-out basis and in the case of manufactured cigarettes, comprises cost of materials, labour and manufacturing overheads. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and selling expenses.

### k. receivables

Trade receivables are carried at invoiced amount less an estimate made for doubtful debts based on a review of outstanding amounts at the year end. The allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

Prepayments comprise expenditure incurred for benefits expected to arise after the balance sheet date. This includes payments for the forest plantation development project, where the amounts are carried at cost and expensed to the income statement to match the inflow of benefits accrued.

### l. cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with licensed financial institutions, bank overdrafts and short term highly liquid investments with original maturities of three months or less.

### m. employee benefits

#### (i) Short term benefits

Wages, salaries, bonuses and other staff related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group.

#### (ii) Defined contribution plan

The Group's contributions to the Employees Provident Fund are recognised as an expense in the income statement as incurred. Once the contributions have been paid, the Group has no further payment obligations.

#### (iii) Defined benefit plan

The Group operates a defined benefit plan for employees who joined the Group prior to 1 January 2006, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement obligation is determined based on a triennial actuarial valuation (with annual updates) where the amount of the benefit that eligible employees have earned in return for their service in the current and prior years is estimated.

The liability in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date, reduced by the fair value of plan assets.

The defined benefit obligation, calculated using the Projected Unit Credit Method, is determined by an independent actuary, considering the estimated future cash outflows.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognised in full in the period they arise through retained earnings.

**m. employee benefits (continued)****(iv) Termination benefits**

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy and is without realistic possibility of withdrawal.

**(v) Share-based payments**

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed off over the vesting period, based on British American Tobacco p.l.c.'s estimate of awards that will eventually vest. Fair value is measured by the use of the Black-Scholes and Monte-Carlo pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, forfeiture and historical experience.

**n. payables**

Payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

**o. provisions**

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

**p. taxation**

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Tax expense is the aggregate amount included in the determination of profit for the period in respect of current tax and deferred tax.

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits, allowance for doubtful debts and tax losses and unutilised capital allowances. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

## summary of significant accounting policies

for the financial year ended 31 december 2009

### q. foreign currencies

#### (i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

#### (ii) Foreign currency transactions and balances

Foreign currency transactions in the Group are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

#### (iii) Foreign entities

Assets and liabilities of foreign subsidiaries are translated at closing rates for purposes of consolidation. Income statement items are translated at average rates during the financial year and resulting exchange differences are dealt with in equity for the financial year.

#### (iv) Closing rates

The principal closing rates used in translation of foreign currency amounts were as follows:

Foreign Currency	31.12.2009	31.12.2008
1 US Dollar	3.4240	3.4659
1 Pound Sterling	5.5293	4.9746
1 Euro	4.9127	4.8094

### r. financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### Financial instruments not recognised on the balance sheet

#### (i) Foreign currency forward contracts

Foreign currency forward contracts are entered to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

All other exchange gains and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items. Gains and losses on contracts which are no longer designated as a hedge are included in the income statement.

#### (ii) Fair value estimation for disclosure purposes

The fair values of long term debt are based on quoted market prices at the balance sheet date or dealer quotes for the specific or similar instruments.

The fair values of forward exchange contracts are determined using forward exchange market rates at the balance sheet date.

The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

**s. borrowings**

Borrowings are recorded at the amount of proceeds received, net of transaction costs.

Interest expense relating to borrowings is reported within finance cost in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**t. share capital**

Ordinary shares are classified as equity.

**u. dividends**

Interim dividends are recognised as a liability in the period in which they are declared. Final dividends are recognised in the period approval of members is obtained.

**v. segment reporting**

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment. The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products in Malaysia, 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 and it is not possible to segment the Group results by brand without a high degree of estimation.



## notes to the financial statements

### 1. general information

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company deems British American Tobacco p.l.c., which is incorporated in England and Wales, to be its ultimate holding company.

The address of the registered office and principal place of business of the Company is as follows:

Virginia Park, Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan

### 2. revenue

	Group		Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
Sale of cigarettes, pipe tobaccos and cigars	3,923,421	4,135,220	—	—
Dividend income from unquoted subsidiaries	—	—	671,760	819,513
Management fee received from subsidiaries	—	—	10,825	6,579
Fee for usage of property, plant and equipment received from subsidiaries	—	—	14,786	6,558
	3,923,421	4,135,220	697,371	832,650

**3. profit from operations**

	<b>Group</b>		<b>Company</b>	
	<b>Year ended 31.12.09 RM'000</b>	<b>Year ended 31.12.08 RM'000</b>	<b>Year ended 31.12.09 RM'000</b>	<b>Year ended 31.12.08 RM'000</b>
Profit from operations is arrived at:				
After charging:				
Raw materials and consumables used	<b>305,140</b>	354,217	—	—
Auditors' remuneration:				
– statutory audit	<b>183</b>	205	<b>60</b>	60
– audit related fees	<b>92</b>	106	<b>70</b>	78
– non audit fees	<b>121</b>	6	<b>6</b>	6
Property, plant and equipment:				
– depreciation (Note 9)	<b>71,416</b>	72,152	<b>5,595</b>	7,093
– loss on disposal	<b>1,274</b>	988	<b>170</b>	—
– impairment (Note 9)	<b>27,273</b>	20,599	—	—
Amortisation of leasehold land (Note 11)	<b>405</b>	371	<b>23</b>	23
Computer software (Note 12)				
– amortisation	<b>9,376</b>	8,028	<b>9,315</b>	8,028
– impairment	<b>1,111</b>	—	<b>1,111</b>	—
Rental of land and buildings	<b>6,611</b>	6,752	—	—
Inventories written off	<b>2,489</b>	2,269	—	—
Bad debts written off	<b>2,925</b>	—	—	—
Allowance for doubtful debts	<b>3,200</b>	1,609	—	—
Provision for litigation	<b>5,800</b>	—	—	—
Net foreign exchange loss	—	362	—	—
Staff costs (Note 5)	<b>127,757</b>	134,924	<b>23,436</b>	33,098
And crediting:				
Property, plant and equipment:				
– gain on disposal	—	—	—	487
Gain on disposal of assets held for sale	<b>362</b>	—	—	—
Recovery of impairment costs	<b>13,115</b>	—	—	—
Interest income on loan to subsidiary	—	—	<b>1,892</b>	—
Interest income on deposits	<b>5,470</b>	7,619	<b>15</b>	79
Net foreign exchange gain	<b>4,706</b>	—	<b>653</b>	2,899

## notes to the financial statements

### 4. directors' remuneration

	Group		Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
Fees	507	511	507	511
Other emoluments	10,164	7,712	7,829	6,067
	10,671	8,223	8,336	6,578

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM705,368 (2008: RM1,138,082) and RM598,604 (2008: RM904,638) respectively.

Share-based payments made to certain Directors of the Group and Company (during their employment with the Group) in the financial year are by way of their participation in employee share schemes (Note 30) offered by British American Tobacco p.l.c.

Details of the movements of certain Directors' equity-settled share-based payment arrangements during the year ended 31 December 2009, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.09	Awarded in 2009	Vested in 2009	Other movements*	At 31.12.09
<b>Executive Directors</b>					
Deferred Share Bonus Scheme	7,762	13,530	(1,950)	(9,897)	9,445
International Share Reward Scheme	—	168	—	—	168
	7,762	13,698	(1,950)	(9,897)	9,613

#### 4. directors' remuneration (continued)

Details of the movements of the Directors' participation in the equity-settled Long Term Incentive Plan and Share Option Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

Grant price	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.09	Granted in 2009	Exercised in 2009	Other movements*	At 31.12.09
£5.98	7,392	—	—	—	7,392
£8.09	5,163	—	—	—	5,163
£10.37	6,857	—	—	—	6,857
£14.34	5,418	—	—	—	5,418
£15.41	5,178	—	—	—	5,178
£19.03	14,978	—	—	(10,167)	4,811
£15.79	—	14,386	—	—	14,386
	44,986	14,386	—	(10,167)	49,205

\* Other movements relate to changes due to movement of Directors during the financial year.

#### 5. staff costs

	Group		Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
Wages, salaries and bonuses	92,817	104,301	15,108	23,519
Defined contribution plan	17,793	19,442	3,101	3,576
Voluntary redundancy package	8,300	5,913	1,200	2,598
Other staff related expenses	8,847	5,268	4,027	3,405
	127,757	134,924	23,436	33,098

The Group voluntarily provided additional Employees Provident Fund (EPF) contributions over the statutory requirement for a significant number of existing employees who participate in a defined contribution scheme offered by the Group.

Included in staff cost is an amount for other emoluments as part of Directors' remuneration disclosed in Note 4 to the financial statements.

Staff costs recharged by the Company to the subsidiaries amounted to RM12,479,945 (2008: RM18,247,017).

## notes to the financial statements

### 6. tax expense

The tax charge on the profit for the financial year consists of the following:

	Group		Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>In respect of current year</b>				
Current tax				
– Malaysian income tax	276,193	284,614	12,437	44,076
– Foreign tax	33	44	–	–
Deferred tax (Note 15 (i))	(10,792)	(15,175)	(3,542)	–
<b>In respect of prior years</b>				
(Over)/Under provision in respect of prior years				
– Malaysian income tax	(6,906)	–	1,192	–
	<b>258,528</b>	269,483	<b>10,087</b>	44,076

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	Group		Company	
	Year ended 31.12.09	Year ended 31.12.08	Year ended 31.12.09	Year ended 31.12.08
Statutory tax rate	25%	26%	25%	26%
Expenses not deductible for tax purposes	1%	1%	–	–
Utilisation of reinvestment allowances	–	(1%)	–	–
Income not subject to tax	–	–	(25%)	(21%)
Changes in tax rate	–	(1%)	–	–
Over provision in respect of prior years	(1%)	–	–	–
Section 108 tax credit shortfall	1%	–	2%	–
Average effective tax rate	<b>26%</b>	25%	<b>2%</b>	5%



## 7. earnings per share

Earnings per share is calculated by dividing the profit for the financial year by the number of ordinary shares in issue.

	Group	
	Year ended 31.12.09	Year ended 31.12.08
Profit for the financial year (RM'000)	746,784	811,683
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530
Earnings per share (sen)	261.5	284.3

## 8. dividends

Dividends paid, declared or proposed in respect of the financial year are as follows:

	Group and Company					
	Year ended 31.12.09			Year ended 31.12.08		
	Gross per share Sen	Net per share Sen	Amount of dividend RM'000	Gross per share Sen	Net per share Sen	Amount of dividend RM'000
First interim dividend paid	113.0	113.0	322,649	113.0	113.0	322,649
Second interim dividend paid	61.0	61.0	174,173	76.0	76.0	217,003
Proposed final dividend, tax exempt	62.0	62.0	177,029	76.0	76.0	217,003
	236.0	236.0	673,851	265.0	265.0	756,655

Interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained earnings in the financial year.

At the forthcoming Annual General Meeting on 20 April 2010, a net final dividend in respect of the financial year ended 31 December 2009 of 62.00 sen per share, tax exempt under the single-tier system, amounting to RM177,028,600 will be recommended for shareholders' approval (2008: net final dividend of 76.00 sen per share, tax exempt under the single-tier system, amounting to RM217,002,800). These financial statements do not reflect the proposed final dividend which will be accounted for in the financial year ending 31 December 2010.

## notes to the financial statements

### 9. property, plant and equipment

	Land and Buildings RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
<b>GROUP</b>						
<b>Net book value at 1 January 2008</b>	92,435	262,116	36,159	33,270	15,979	439,959
Additions	2,534	9,094	9,179	19,727	61,002	101,536
Disposals	(805)	(2,876)	(710)	(5,729)	—	(10,120)
Impairment	—	(20,599)	—	—	—	(20,599)
Reclassifications	—	8,482	7,942	—	(16,424)	—
Depreciation charge	(2,561)	(33,906)	(28,594)	(7,091)	—	(72,152)
<b>Net book value at 31 December 2008</b>	<b>91,603</b>	<b>222,311</b>	<b>23,976</b>	<b>40,177</b>	<b>60,557</b>	<b>438,624</b>
<b>Additions</b>	<b>217</b>	<b>1,389</b>	<b>9,521</b>	<b>4,020</b>	<b>92,015</b>	<b>107,162</b>
<b>Disposals</b>	<b>—</b>	<b>(2,322)</b>	<b>(773)</b>	<b>(7,041)</b>	<b>—</b>	<b>(10,136)</b>
<b>Impairment</b>	<b>(500)</b>	<b>(26,773)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(27,273)</b>
<b>Reclassifications</b>	<b>—</b>	<b>103,298</b>	<b>2,863</b>	<b>—</b>	<b>(106,161)</b>	<b>—</b>
<b>Depreciation charge</b>	<b>(3,783)</b>	<b>(30,156)</b>	<b>(28,921)</b>	<b>(8,556)</b>	<b>—</b>	<b>(71,416)</b>
<b>Transfer to investment property (Note 10)</b>	<b>(1,654)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,654)</b>
<b>Transfer to assets held for sale (Note 17)</b>	<b>(2,739)</b>	<b>(1,451)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(4,190)</b>
<b>Net book value at 31 December 2009</b>	<b>83,144</b>	<b>266,296</b>	<b>6,666</b>	<b>28,600</b>	<b>46,411</b>	<b>431,117</b>
<b>At 31 December 2008</b>						
Cost	148,385	414,039	153,679	66,625	60,557	843,285
Valuation	1,227	—	—	—	—	1,227
Accumulated depreciation and impairment	(58,009)	(191,728)	(129,703)	(26,448)	—	(405,888)
<b>Net book value</b>	<b>91,603</b>	<b>222,311</b>	<b>23,976</b>	<b>40,177</b>	<b>60,557</b>	<b>438,624</b>
<b>At 31 December 2009</b>						
Cost	143,470	499,044	152,361	53,171	46,411	894,457
Accumulated depreciation and impairment	(60,326)	(232,748)	(145,695)	(24,571)	—	(463,340)
<b>Net book value</b>	<b>83,144</b>	<b>266,296</b>	<b>6,666</b>	<b>28,600</b>	<b>46,411</b>	<b>431,117</b>

**9. property, plant and equipment (continued)**

	<b>Land and Buildings RM'000</b>	<b>Machinery and Equipment RM'000</b>	<b>Furniture and Fittings RM'000</b>	<b>Motor Vehicles RM'000</b>	<b>Capital Work In Progress RM'000</b>	<b>Total RM'000</b>
<b>COMPANY</b>						
<b>Net book value at 1 January 2008</b>	8,881	790	10,413	4,382	937	25,403
Additions	360	37	3,190	3,562	146	7,295
Disposals	(552)	—	(70)	(686)	—	(1,308)
Depreciation charge	(313)	(49)	(6,006)	(725)	—	(7,093)
<b>Net book value at 31 December 2008</b>	<b>8,376</b>	<b>778</b>	<b>7,527</b>	<b>6,533</b>	<b>1,083</b>	<b>24,297</b>
<b>Additions</b>	<b>—</b>	<b>266</b>	<b>1,875</b>	<b>747</b>	<b>774</b>	<b>3,662</b>
<b>Disposals</b>	<b>—</b>	<b>—</b>	<b>(37)</b>	<b>(1,158)</b>	<b>—</b>	<b>(1,195)</b>
<b>Reclassifications</b>	<b>—</b>	<b>—</b>	<b>1,083</b>	<b>—</b>	<b>(1,083)</b>	<b>—</b>
<b>Depreciation charge</b>	<b>(305)</b>	<b>(66)</b>	<b>(4,255)</b>	<b>(969)</b>	<b>—</b>	<b>(5,595)</b>
<b>Transfer to a subsidiary</b>	<b>(358)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(358)</b>
<b>Transfer to assets held for sale (Note 17)</b>	<b>(1,877)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,877)</b>
<b>Net book value at 31 December 2009</b>	<b>5,836</b>	<b>978</b>	<b>6,193</b>	<b>5,153</b>	<b>774</b>	<b>18,934</b>
<b>At 31 December 2008</b>						
Cost	12,390	1,282	34,929	8,905	1,083	58,589
Valuation	611	—	—	—	—	611
Accumulated depreciation	(4,625)	(504)	(27,402)	(2,372)	—	(34,903)
<b>Net book value</b>	<b>8,376</b>	<b>778</b>	<b>7,527</b>	<b>6,533</b>	<b>1,083</b>	<b>24,297</b>
<b>At 31 December 2009</b>						
Cost	9,513	1,548	27,505	7,359	774	46,699
Accumulated depreciation	(3,677)	(570)	(21,312)	(2,206)	—	(27,765)
<b>Net book value</b>	<b>5,836</b>	<b>978</b>	<b>6,193</b>	<b>5,153</b>	<b>774</b>	<b>18,934</b>

## notes to the financial statements

### 9. property, plant and equipment (continued)

	Freehold Land Cost RM'000	Buildings		Total Land and Buildings RM'000
		Cost RM'000	Valuation RM'000	
<b>GROUP</b>				
<b>Net book value at 1 January 2008</b>	455	91,205	775	92,435
Additions	—	2,534	—	2,534
Disposals	(350)	(455)	—	(805)
Depreciation charge	—	(2,033)	(528)	(2,561)
<b>Net book value at 31 December 2008</b>	<b>105</b>	<b>91,251</b>	<b>247</b>	<b>91,603</b>
<b>Additions</b>	<b>—</b>	<b>217</b>	<b>—</b>	<b>217</b>
<b>Impairment</b>	<b>—</b>	<b>(500)</b>	<b>—</b>	<b>(500)</b>
<b>Depreciation charge</b>	<b>—</b>	<b>(3,536)</b>	<b>(247)</b>	<b>(3,783)</b>
<b>Transfer to investment property (Note 10)</b>	<b>—</b>	<b>(1,654)</b>	<b>—</b>	<b>(1,654)</b>
<b>Transfer to assets held for sale</b>	<b>—</b>	<b>(2,739)</b>	<b>—</b>	<b>(2,739)</b>
<b>Net book value at 31 December 2009</b>	<b>105</b>	<b>83,039</b>	<b>—</b>	<b>83,144</b>
<b>At 31 December 2008</b>				
Cost	105	148,280	—	148,385
Valuation	—	—	1,227	1,227
Accumulated depreciation	—	(57,029)	(980)	(58,009)
<b>Net book value</b>	<b>105</b>	<b>91,251</b>	<b>247</b>	<b>91,603</b>
<b>At 31 December 2009</b>				
Cost	<b>105</b>	<b>143,365</b>	<b>—</b>	<b>143,470</b>
Accumulated depreciation and impairment	<b>—</b>	<b>(60,326)</b>	<b>—</b>	<b>(60,326)</b>
<b>Net book value</b>	<b>105</b>	<b>83,039</b>	<b>—</b>	<b>83,144</b>

**9. property, plant and equipment (continued)**

	Freehold Land Cost RM'000	Buildings		Total Land and Buildings RM'000
		Cost RM'000	Valuation RM'000	
<b>COMPANY</b>				
<b>Net book value at 1 January 2008</b>	455	8,255	171	8,881
Additions	—	360	—	360
Disposals	(350)	(202)	—	(552)
Depreciation charge	—	(299)	(14)	(313)
<b>Net book value at 31 December 2008</b>	<b>105</b>	<b>8,114</b>	<b>157</b>	<b>8,376</b>
<b>Depreciation charge</b>	<b>—</b>	<b>(148)</b>	<b>(157)</b>	<b>(305)</b>
<b>Transfer to a subsidiary</b>	<b>—</b>	<b>(358)</b>	<b>—</b>	<b>(358)</b>
<b>Transfer to assets held for sale</b>	<b>—</b>	<b>(1,877)</b>	<b>—</b>	<b>(1,877)</b>
<b>Net book value at 31 December 2009</b>	<b>105</b>	<b>5,731</b>	<b>—</b>	<b>5,836</b>
<b>At 31 December 2008</b>				
Cost	105	12,285	—	12,390
Valuation	—	—	611	611
Accumulated depreciation	—	(4,171)	(454)	(4,625)
<b>Net book value</b>	<b>105</b>	<b>8,114</b>	<b>157</b>	<b>8,376</b>
<b>At 31 December 2009</b>				
Cost	105	9,408	—	9,513
Accumulated depreciation	—	(3,677)	—	(3,677)
<b>Net book value</b>	<b>105</b>	<b>5,731</b>	<b>—</b>	<b>5,836</b>

Certain buildings were revalued by the Directors on 1 July 1983 based upon independent professional valuation using fair market value on a current use basis.

Additions subsequent to this revaluation are stated at cost.

The net book value of revalued buildings of the Group and Company that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation, are as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Buildings	—	40	—	9



## notes to the financial statements

### 9. property, plant and equipment (continued)

During the financial year, the Group reviewed and revised the useful lives of certain furniture and fittings as required by FRS 116 Property, Plant and Equipment. The revision was accounted for as a change in accounting estimates. As a result, the depreciation charge for the Group for the current financial year increased by approximately RM11,266,000.

During the financial year, the Group assessed whether there was any indication of impairment for its machineries and properties. Certain machineries were impaired as a result of changes in legislation, changes in pack design and reduction in export volumes. The Group recognised an impairment charge amounting to approximately RM26,773,000 on these machineries, of which approximately RM13,115,000 was recovered from a related company, British American Tobacco Japan, Ltd.

During the financial year, the Group has accepted an offer to dispose its property at Keningau, Sabah for a consideration of RM1,950,000. An impairment charge of RM500,000 representing the difference between its carrying amount and the consideration was recognised during the financial year. This property has been reclassified as an asset held for sale (Note 17).

### 10. investment property

	Group	
	2009 RM'000	2008 RM'000
<b>Net book value at 1 January</b>	—	—
Transfer from property, plant and equipment (Note 9)	1,654	—
<b>Net book value at 31 December</b>	1,654	—
<b>Cost</b>	1,718	—
<b>Accumulated depreciation</b>	(64)	—
<b>Net book value</b>	1,654	—
<b>Fair value of investment properties</b>	1,654	—

The Group's properties at Pasir Putih, Kelantan and at Mukim Wakaf Delima, Kelantan were transferred to Investment Properties on 31 December 2009. These properties are not occupied by the Group and are idle.

**11. leasehold land**

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
Net book value at 1 January	<b>20,455</b>	20,826	<b>1,109</b>	1,132
Amortisation charge	<b>(405)</b>	(371)	<b>(23)</b>	(23)
Transfer to assets held for sale (Note 17)	<b>(98)</b>	—	<b>(73)</b>	—
Net book value at 31 December	<b>19,952</b>	20,455	<b>1,013</b>	1,109
<b>Valuation</b>	<b>28,948</b>	29,078	<b>1,461</b>	1,565
<b>Accumulated amortisation</b>	<b>(8,996)</b>	(8,623)	<b>(448)</b>	(456)
<b>Net book value</b>	<b>19,952</b>	20,455	<b>1,013</b>	1,109

Leasehold land was revalued by the Directors on 1 July 1983 based upon independent professional valuations using fair market value on a current use basis.

Additions subsequent to this revaluation are stated at cost.

**12. computer software**

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Net book value at 1 January</b>	<b>15,232</b>	21,091	<b>15,086</b>	21,091
Additions	<b>1,805</b>	2,172	<b>1,757</b>	2,026
Amortisation charge	<b>(9,376)</b>	(8,028)	<b>(9,315)</b>	(8,028)
Disposals	—	(3)	—	(3)
Impairment	<b>(1,111)</b>	—	<b>(1,111)</b>	—
Transfer from subsidiary	—	—	<b>133</b>	—
<b>Net book value at 31 December</b>	<b>6,550</b>	15,232	<b>6,550</b>	15,086
<b>Cost</b>	<b>29,582</b>	27,777	<b>29,581</b>	27,631
<b>Accumulated amortisation and impairment</b>	<b>(23,032)</b>	(12,545)	<b>(23,031)</b>	(12,545)
<b>Net book value</b>	<b>6,550</b>	15,232	<b>6,550</b>	15,086

## notes to the financial statements

### 13. goodwill

	Group	
	2009 RM'000	2008 RM'000
<b>Net book value at 31 December</b>	<b>411,618</b>	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad (MTC), which represents the cash generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies (i.e. Commercial Marketers and Distributors Sdn. Bhd. (CMD) for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. (TBM) for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating units to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of 5 years (2008: 5 years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 6.86% (2008: 7.5%). No impairment charges were recognised in 2009 (2008: Nil) and no significant difference in the recoverable amount is expected should the discounted cash flows change by 5% (2008: 5%).

### 14. subsidiaries

	Company	
	2009 RM'000	2008 RM'000
Unquoted investments, at cost	<b>1,024,956</b>	1,024,956
Impairment losses	<b>(2,067)</b>	(2,067)
	<b>1,022,889</b>	1,022,889

The subsidiaries, all of which are wholly-owned, are as follows:

#### **Incorporated in Malaysia**

##### **Operating**

Commercial Importers and Distributors Sdn. Bhd.

Commercial Marketers and Distributors Sdn. Bhd.

Rothmans Brands Sdn. Bhd.

The Leaf Tobacco Development Corporation of Malaya Sdn. Bhd.

Tobacco Importers and Manufacturers Sdn. Bhd.

##### **Principal Activities**

Investment holding

Marketing and importation of cigarettes, pipe tobaccos and cigars

Holding of trademarks

Purchase of tobacco leaf on behalf of a subsidiary

Manufacture and sale of cigarettes and other tobacco related products

**14. subsidiaries (continued)****Non-operating**

Contemporary Force Sdn. Bhd.  
 Lucky Strike Originals Sdn. Bhd.  
 Martins of Piccadilly, London, Sdn. Bhd.^  
 One World GSA Sdn. Bhd.^  
 Perilly's Centre Sdn. Bhd.^  
 Tobacco Blenders and Manufacturers Sdn. Bhd.

**Principal Activities**

Dormant  
 Dormant  
 Dormant  
 Dormant  
 Dormant  
 Dormant

**Incorporated in Negara Brunei Darussalam****Operating**

Commercial Marketers and Distributors Sdn. Bhd.\*

**Principal Activities**

Provision of advertising and promotional services

\* The financial statements were not audited by PricewaterhouseCoopers, Malaysia.

^ The Group has applied to strike off these companies.

**15. deferred tax**

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Deferred tax assets</b>				
At 1 January	<b>4,978</b>	4,978	<b>4,978</b>	4,978
Credited to income statement Note 15(i)	<b>14,317</b>	—	<b>3,542</b>	—
At 31 December	<b>19,295</b>	4,978	<b>8,520</b>	4,978
<b>Represented by:</b>				
Excess of depreciation over capital allowances	<b>7,667</b>	4,978	<b>8,520</b>	4,978
Provisions	<b>11,628</b>	—	—	—
	<b>19,295</b>	4,978	<b>8,520</b>	4,978
<b>Deferred tax liabilities</b>				
At 1 January	<b>43,287</b>	58,585	—	—
Charged/(Credited) to income statement Note 15(i)	<b>3,525</b>	(15,175)	—	—
Credited to retained earnings Note 15(ii)	<b>(60)</b>	(123)	—	—
At 31 December	<b>46,752</b>	43,287	—	—
<b>Represented by:</b>				
Excess of capital allowances over depreciation	<b>42,151</b>	38,669	—	—
Revalued land and buildings	<b>4,222</b>	4,282	—	—
Provisions	<b>379</b>	336	—	—
	<b>46,752</b>	43,287	—	—

## notes to the financial statements

### 15. deferred tax (continued)

The amounts above have been reconciled to the income statements and the statements of changes in equity as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>(i) (Credited)/Charged to income statement</b>				
Credited in respect of deferred tax assets	(14,317)	—	(3,542)	—
Charged/(Credited) in respect of deferred tax liabilities	3,525	(15,175)	—	—
Net credit to income statement (Note 6)	(10,792)	(15,175)	(3,542)	—
<b>(ii) Credited to retained earnings</b>				
Credited in respect of deferred tax liabilities	(60)	(123)	—	—
Net credit to retained earnings	(60)	(123)	—	—

The amount of unutilised tax losses (which has no expiry date) for which no deferred tax asset is recognised in the balance sheet of the Group was as follows:

	Group	
	2009 RM'000	2008 RM'000
Tax losses	5,212	5,212
Deferred tax asset not recognised at 25%	1,303	1,303

### 16. loan to a subsidiary

On 17 August 2009, the Company issued a 5-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3% per annum receivable semi annually. The loan is receivable in a lump sum in 2014.



**17. assets held for sale**

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>At 1 January</b>	<b>20,638</b>	20,638	—	—
Transfer from property, plant and equipment (Note 9)	<b>4,190</b>	—	<b>1,877</b>	—
Transfer from leasehold land (Note 11)	<b>98</b>	—	<b>73</b>	—
Disposed during the year	<b>(20,638)</b>	—	—	—
<b>At 31 December</b>	<b>4,288</b>	20,638	<b>1,950</b>	—

The assets held for sale during the year, which were transferred from property, plant and equipment and leasehold land, consist of the following:

- The Group offered to dispose the property at Keningau, Sabah for a consideration of RM1,950,000, which was accepted by the purchaser. This disposal is expected to be completed by the end of 2010 with no material gains or losses arising.
- The Group's management has undertaken an active programme to locate buyers for its properties at Changloon, Kedah. The proposed selling price approximates its current carrying value.
- The Group's management agreed to dispose of two of its machines which are no longer in use to its related companies at the machines' current carrying values. These disposals were completed in January 2010 with no material gains or losses arising.

On 8 October 2007, the Group entered into a sale and purchase agreement for the disposal of the final part of its property at Sungai Besi, Kuala Lumpur for a consideration of RM21,000,000. This disposal was completed on 23 January 2009 with no material gains or losses arising.

**18. inventories**

	Group	
	2009 RM'000	2008 RM'000
<b>At cost</b>		
Raw materials	<b>91,572</b>	122,609
Work-in-progress	<b>7,804</b>	5,402
Finished goods	<b>110,362</b>	92,889
Consumable stores	<b>4,520</b>	4,058
	<b>214,258</b>	224,958

## notes to the financial statements

### 19. receivables

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Trade receivables	<b>97,104</b>	159,749	—	—
Allowance for doubtful debts	<b>(3,200)</b>	(14,914)	—	—
Dividends due from subsidiaries	<b>93,904</b>	144,835	—	—
Amounts due from related companies	—	—	<b>174,293</b>	228,431
Other receivables	<b>42,373</b>	44,282	<b>62,634</b>	54,353
Deposits	<b>2,586</b>	20,247	—	—
Prepayments	<b>1,853</b>	1,919	<b>537</b>	565
	<b>23,996</b>	46,535	<b>345</b>	595
	<b>164,712</b>	257,818	<b>237,809</b>	283,944

Amounts due from related companies of the Group are mainly denominated in US Dollars. All other receivables of the Group and Company are mainly denominated in Ringgit Malaysia.

Credit terms of trade receivables range from 1 to 60 days (2008: 1 to 60 days).

Approximately 50% of the Group's trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The Group's amounts due from related companies arose mainly from export sales which have a credit term of 60 days (2008: 60 days) and prepayments for leaf purchases which are not subject to any terms of repayment. These amounts are unsecured and interest-free.

The Company's amounts due from related companies arose mainly from payments made on behalf of certain related companies. These amounts are unsecured, interest-free and not subject to any terms of repayment.

**20. deposits, cash and bank balances**

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
Deposits with licensed banks	<b>155,020</b>	22,488	—	—
Cash and bank balances	<b>13,666</b>	36,899	<b>461</b>	1,129
	<b>168,686</b>	59,387	<b>461</b>	1,129
The currency exposure profile of deposits, cash and bank balances is as follows:				
– Ringgit Malaysia	<b>155,790</b>	31,973	<b>461</b>	1,129
– US Dollar	<b>6,611</b>	20,805	—	—
– Brunei Dollar	<b>6,285</b>	6,609	—	—
	<b>168,686</b>	59,387	<b>461</b>	1,129
The weighted average interest rates of deposits with licensed banks that were effective during the year (per annum)	<b>2.0%</b>	3.3%	—	—

Deposits of the Group have an average maturity period of 31 days (2008: 1 day).

**21. payables**

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
Trade payables	<b>98,916</b>	116,701	—	—
Trade accruals	<b>16,079</b>	19,373	—	—
Amounts due to subsidiaries	—	—	<b>437,343</b>	362,049
Amounts due to related companies	<b>6,170</b>	23,217	—	12,870
Other payables	<b>97,923</b>	126,446	<b>28,996</b>	31,084
	<b>219,088</b>	285,737	<b>466,339</b>	406,003

## notes to the financial statements

### 21. payables (continued)

The currency exposure profile of trade payables is as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Ringgit Malaysia	98,639	115,367	—	—
US Dollar	244	1,319	—	—
Pound Sterling	33	—	—	—
Others	—	15	—	—
	98,916	116,701	—	—

The currency exposure profile of amounts due to related companies is as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Ringgit Malaysia	5,925	8,017	—	—
US Dollar	245	3,962	—	1,631
Pound Sterling	—	11,132	—	11,132
Others	—	106	—	107
	6,170	23,217	—	12,870

All other amounts within payables are mostly denominated in Ringgit Malaysia.

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from no credit to 120 days (2008: no credit to 120 days).

Amounts due to subsidiaries have no fixed terms of repayment, are unsecured and interest-free. However, the subsidiaries have indicated that the amounts due will not be recalled within the next 12 months.

Amounts due to related companies are repayable within credit terms granted of 60 days (2008: 60 days), are unsecured and interest-free.

Included in the Group's other payables is a provision made in respect of litigation amounting to approximately RM16,800,000 (2008: RM11,000,000).

**22. borrowings (interest bearing)**

(a) The Group's and Company's borrowings as at 31 December 2009 are as follows:

- (i) RM400,000,000 5-year unsecured Medium-Term Notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme); and
- (ii) RM250,000,000 5-year unsecured Medium-Term Notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme).

(b) (i) Maturity of the Group and Company borrowings is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Total borrowings</b>				
Medium-term notes	<b>650,000</b>	650,000	<b>650,000</b>	650,000
Maturity of borrowings:				
Within one year	—	250,000	—	250,000
More than 1 year and less than 2 years	—	—	—	—
More than 2 years and less than 5 years	<b>650,000</b>	400,000	<b>650,000</b>	400,000
	<b>650,000</b>	650,000	<b>650,000</b>	650,000
(ii) Classification of the Group and Company borrowings is as follows:				
<b>Unsecured</b>				
<b>Current</b>				
Medium-term notes	—	250,000	—	250,000
<b>Non current</b>				
Medium-term notes	<b>650,000</b>	400,000	<b>650,000</b>	400,000

The fair value of borrowings are detailed in Note 29(f).



## notes to the financial statements

### 23. share capital

	Group and Company	
	2009 RM'000	2008 RM'000
<b>Authorised</b> 770,000,000 Ordinary shares of 50 sen each	<b>385,000</b>	385,000
<b>Issued and fully paid</b> 285,530,000 Ordinary shares of 50 sen each	<b>142,765</b>	142,765

### 24. post employment benefit obligations

#### Defined Benefit Plan

The Group operates a defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006), the assets of which are held in a separate trustee administered fund. The Company and certain subsidiaries in the Group make contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

The defined benefit plan is valued by an independent actuary using the Projected Unit Credit Method. The latest actuarial valuation that was conducted on 31 December 2009 showed that the value of the net assets held in the fund together with the book provisions in the Group's financial statements, adequately met the actuarial liabilities arising from the defined benefit plan as at 31 December 2009.

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2009 RM'000	2008* (As restated) RM'000	2009 RM'000	2008* (As restated) RM'000
Present value of defined benefit obligations	<b>12,256</b>	11,027	<b>5,507</b>	983
Fair value of plan assets	<b>(6,213)</b>	(5,730)	<b>(1,444)</b>	(883)
Net liability	<b>6,043</b>	5,297	<b>4,063</b>	100

**24. post employment benefit obligations (continued)****Defined Benefit Plan (continued)**

The amounts recognised in the income statement under other operating expenses are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>Year ended 31.12.09 RM'000</b>	<b>Year ended 31.12.08 RM'000</b>	<b>Year ended 31.12.09 RM'000</b>	<b>Year ended 31.12.08 RM'000</b>
Current service cost	(653)	(633)	(113)	(109)
Interest cost	(705)	(616)	(62)	(52)
Expected return on plan assets	167	336	25	52
<b>Total, included within staff cost</b>	<b>(1,191)</b>	<b>(913)</b>	<b>(150)</b>	<b>(109)</b>
Expected return on plan assets	167	336	25	52
Actuarial loss on plan assets	(55)	(185)	(8)	(29)
Actual return on plan assets	112	151	17	23

Movements in post employment benefit obligations were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2009 RM'000</b>	<b>2008* (As restated) RM'000</b>	<b>2009 RM'000</b>	<b>2008* (As restated) RM'000</b>
At 1 January	5,297	4,982	100	49
Charge for the year	1,191	913	150	109
Contributions paid	(658)	(893)	(181)	(95)
Transfer from subsidiary	—	—	3,760	—
Actuarial loss recognised	213	295	234	37
<b>At 31 December</b>	<b>6,043</b>	<b>5,297</b>	<b>4,063</b>	<b>100</b>

## notes to the financial statements

### 24. post employment benefit obligations (continued)

#### Defined Benefit Plan (continued)

Changes in the present value of defined benefit obligations were as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At 1 January	11,027	10,124	983	821
Service cost	653	633	113	109
Interest cost	705	616	62	52
Benefits paid	(287)	(1,131)	—	—
Liability assumed in an intercompany transfer	—	—	4,123	(53)
Actuarial loss due to actual experience	158	785	226	54
At 31 December	12,256	11,027	5,507	983
Defined benefit obligations expected to be payable in the next year	2,892	369	176	39

Changes in the fair value of plan assets were as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At 1 January	5,730	5,817	883	818
Expected return on plan assets	167	336	25	52
Contributions by employer	658	614	181	95
Benefits paid	(287)	(852)	—	—
Assets acquired from an intercompany transfer	—	—	363	(53)
Actuarial loss on plan assets	(55)	(185)	(8)	(29)
At 31 December	6,213	5,730	1,444	883
Contribution payable in the next year	684	659	292	111

**24. post employment benefit obligations (continued)****Defined Benefit Plan (continued)**

The development of actuarial gains and losses as at 31 December were as follows:

	Group		Company	
	2009 RM'000	2008* (As restated) RM'000	2009 RM'000	2008* (As restated) RM'000
Actuarial loss/(gain) from prior year	295	(675)	37	(46)
Actuarial loss recognised in year	213	970	234	83
Cumulative actuarial loss recognised in retained earnings	508	295	271	37

Principal actuarial assumptions used at the balance sheet date in respect of the Group's and the Company's defined benefit plan were as follows:

	2009 %	2008* (As restated) %
Discount rate	6.5	6.5
Expected return on plan assets	3.0	3.0
Expected rate of salary increases	6.0	6.0

The expected rate of return on scheme assets in 2009 is derived from an investment allocation of 20% into Malaysian Government bonds, and 80% into money market instruments yielding annual rates of investment returns of 4.5% and 2.5% respectively.

- \* The restatement reflects the change in the Group's accounting policy for recognition of actuarial gains and losses of defined benefit plan, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

## notes to the financial statements

### 25. cash from operations

	Group		Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
Profit for the financial year	<b>746,784</b>	811,683	<b>640,849</b>	748,881
Adjustments for:				
Defined benefit plan charge (Note 24)	<b>1,191</b>	913	<b>150</b>	109
Interest income	<b>(5,470)</b>	(7,619)	<b>(1,907)</b>	(79)
Property, plant and equipment				
– depreciation	<b>71,416</b>	72,152	<b>5,595</b>	7,093
– impairment	<b>27,273</b>	20,599	–	–
– loss/(gain) on disposal	<b>1,274</b>	988	<b>170</b>	(487)
Amortisation of leasehold land	<b>405</b>	371	<b>23</b>	23
Computer software				
– amortisation	<b>9,376</b>	8,028	<b>9,315</b>	8,028
– impairment	<b>1,111</b>	–	<b>1,111</b>	–
Gain on disposal of assets held for sale	<b>(362)</b>	–	–	–
Bad debts written off	<b>2,925</b>	–	–	–
Allowance for doubtful debts	<b>3,200</b>	1,609	–	–
Inventories written off	<b>2,489</b>	2,269	–	–
Provision for litigation	<b>5,800</b>	–	–	–
Interest expense	<b>27,823</b>	28,131	<b>27,823</b>	28,048
Tax expense	<b>258,528</b>	269,483	<b>10,087</b>	44,076
Changes in working capital:				
– inventories	<b>8,211</b>	16,761	–	–
– receivables	<b>86,978</b>	(72,897)	<b>51,455</b>	(66,103)
– payables	<b>(73,446)</b>	53,768	<b>333</b>	1,666
Cash from operations	<b>1,175,506</b>	1,206,239	<b>745,004</b>	771,255

### 26. capital commitments

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Property, plant and equipment:				
– Authorised and contracted for	–	84,430	–	5,762
– Authorised but not contracted for	<b>1,689</b>	7,538	<b>1,661</b>	2,994
	<b>1,689</b>	91,968	<b>1,661</b>	8,756



## 27. significant related party disclosures

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The related party transactions described below were carried out on terms generally available to unrelated parties unless otherwise stated.

The Group's and Company's transactions are with member corporations of British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

### (a) Group's transactions

	Group	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>(i) Sale of goods</b>		
Sale of cigarettes and tobacco products to:		
– British-American Tobacco Company (HK) Ltd.	4,251	5,870
– Rothmans Far East B.V.	12,907	23,804
– Rothmans Far East B.V. Japan (a division of Rothmans Far East B.V.)	16	4,228
– British American Tobacco Marketing (Singapore) Pte. Ltd.	30,796	19,394
– B.A.T. China Ltd.	1,563	1,576
– British American Tobacco International Ltd.	8,949	10,928
– British American Tobacco Korea Manufacturing Ltd.	30,189	25,794
– British American Tobacco Taiwan Logistics Ltd.	8,549	7,838
	<b>97,220</b>	<b>99,432</b>
<b>(ii) Purchase of goods</b>		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
– British American Tobacco Far East Leaf Ltd.	33	2,772
– Souza Cruz Overseas S.A.	–	5,346
– PT BAT Indonesia Tbk	–	949
– British American Tobacco Bangladesh Company Limited	–	693
– British American Tobacco Australasia Limited	109	1,095
– British American Tobacco Marketing (Singapore) Pte. Ltd.	28,464	37,092
– British American Tobacco (Germany) GmbH	17,936	13,636
– British American Tobacco (GLP) Ltd.	36,443	6,889
– PT Export Leaf Indonesia	23,713	27,283
– British American Tobacco South Africa (PTY) Ltd.	–	21
– British American Tobacco Cambodia Ltd.	1,426	–
	<b>108,124</b>	<b>95,776</b>
Purchase of cigarettes and tobacco products from:		
– British American Tobacco International Ltd.	3,786	2,668
– BAT Theodorius Niemeyer B.V.	892	1,115
– B.A.T. (U.K. & Export) Ltd.	699	–
	<b>5,377</b>	<b>3,783</b>

## notes to the financial statements

### 27. significant related party disclosures (continued)

#### (a) Group's transactions (continued)

	Group	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>(iii) Procurement of services</b>		
Procurement of information technology services from:		
– British American Shared Services Ltd.	13,199	21,475
– British American Tobacco Asia-Pacific Region Ltd.	1,621	—
	<b>14,820</b>	21,475
<b>(iv) Technical and advisory (includes shared based payment charges)</b>		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	45,752	43,644
– British American Tobacco International Ltd.	1,846	1,742
– British American Tobacco Asia Pacific Treasury Pte. Ltd.	411	321
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	6,417	1,844
– B.A.T. (U.K. & Export) Ltd.	193	879
– British American Tobacco Asia-Pacific Region Ltd.	8,140	12,001
	<b>62,759</b>	60,431
<b>(v) Royalties</b>		
Royalties paid/payable to:		
– B.A.T. (U.K. & Export) Ltd.	77,105	89,210
– British American Tobacco (Investments) Ltd.	9,221	8,197
– BAT International Holdings (Switzerland) Ltd., Zug	2,551	6,626
	<b>88,877</b>	104,033
<b>(vi) Sale and purchase of equipment</b>		
(Sale)/purchase of equipment from:		
– British American Tobacco Marketing (Singapore) Pte. Ltd.	90,184	25,691
– B.A.T. (U.K. & Export) Ltd.	—	17,280
– British American Tobacco Asia Pacific Region Ltd	659	—
– British American Shared Services Ltd.	4,631	—
	<b>95,474</b>	42,971

**27. significant related party disclosures (continued)****(a) Group's transactions (continued)**

	Group	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>(vii) Provision of technical and advisory support services to:</b>		
– B.A.T. China Ltd.	129	100
– British American Tobacco Philippines Ltd.	–	21
– British American Tobacco - Vinataba (JV) Ltd.	51	43
– British-American Tobacco Company (HK) Ltd.	326	142
– British American Tobacco Korea Manufacturing Ltd.	–	2
– British American Tobacco Cambodia Ltd.	61	46
– British American Tobacco Services Limited, Taiwan Branch	105	97
– PT BAT Indonesia Tbk.	218	295
– Rothmans of Pall Mall Myanmar	4	26
– British American Tobacco (Vietnam) Ltd.	21	248
– British American Tobacco (Singapore) Pte. Ltd.	1,476	972
– British American Tobacco Marketing (Singapore) Pte. Ltd.	856	761
– British American Tobacco Japan, Ltd.	80	57
– PT Export Leaf Indonesia	1	1
– British American Tobacco (Thailand) Ltd.	106	69
– Ceylon Tobacco Co. Ltd.	2	7
– British American Tobacco (PNG) Limited	10	8
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	253	205
– British American Tobacco South Africa Pte Ltd	2	–
– British American Tobacco Bangladesh Limited	1	–
– British American Tobacco International Ltd.	291	–
	<b>3,993</b>	<b>3,100</b>

The Group provides various services for member corporations of the British American Tobacco p.l.c. which includes procurement, product testing and development services.

**(b) Company's transactions**

	Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>(i) Management fee</b>		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	10,825	6,579

## notes to the financial statements

### 27. significant related party disclosures (continued)

#### (b) Company's transactions (continued)

	Company	
	Year ended 31.12.09 RM'000	Year ended 31.12.08 RM'000
<b>(ii) Fee for usage of property, plant and equipment:</b> Fee for usage of property, plant and equipment received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	13,499	6,267
– Tobacco Importers and Manufacturers Sdn. Bhd.	1,287	851
	<b>14,786</b>	<b>7,118</b>
<b>(iii) Procurement of services*</b> Procurement of information technology services from:		
– British American Shared Services Ltd.	13,199	21,475
– British American Tobacco Asia-Pacific Region Ltd.	1,621	—
	<b>14,820</b>	<b>21,475</b>
<b>(iv) Technical and advisory (includes shared based payment charges)*</b> Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	45,752	43,644
– British American Tobacco International Ltd.	1,846	1,742
– British American Tobacco Asia Pacific Treasury Pte. Ltd.	411	321
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	6,417	1,844
– B.A.T. (U.K. & Export) Ltd.	193	879
– British American Tobacco Asia-Pacific Region Ltd.	8,140	12,001
	<b>62,759</b>	<b>60,431</b>
<b>(v) Loan to a subsidiary</b> Loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	80,000	—
<b>(vi) Interest income</b> Interest income from loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	1,892	—
<b>(vii) Transfer of assets</b> Transfer of assets to subsidiary:		
– Tobacco Importers and Manufacturers Sdn. Bhd.	358	—

Key management personnel of the Group and Company are the Directors of which their compensation has been disclosed in Note 4 of the financial statements.

\* These costs have been fully re-charged to certain subsidiaries during the year.

## 28. segment reporting

Segment analysis has not been prepared as the Group is primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products in Malaysia.

## 29. financial instruments

### Financial Risk Management

The Group is exposed to financial risks arising from its business activities; mainly interest rate risks, exchange risks, credit risks and liquidity and cash flow risks. Straightforward derivative financial instruments are utilised by the Group to lower funding costs, to alter interest rate exposures or to achieve greater certainty of future costs. These instruments are entered into in accordance with objectives and policies approved by the Board of Directors that expressly forbid speculative transactions.

The policy restricts the use of derivative instruments to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements, currency options and caps. In addition to policies, guidelines and exposure limits, a system of delegated authority limits and extensive independent reporting covers all major areas of the Group's treasury activities.

#### (a) Interest Rate Risk Management

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group. As at the balance sheet date, there were no open interest rate swap contracts.

#### (b) Currency Exchange Risk Management

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group enters into forward foreign exchange contracts to limit its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies, which operate within a specified maximum exposure limit.

#### Group:

At 31 December 2009, the settlement dates on open forward contracts range between 22 January 2010 to 28 December 2010. The contracted exchange rate and amount of the Group's outstanding contracts are as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD12,000,000	US Dollar	41,616	1 USD = RM3.4680
GBP5,800,000	Pound Sterling	31,707	1 GBP = RM5.4667
EUR3,390,000	Euro	16,983	1 EUR = RM5.0097
Hedged item	Currency to be received	RM'000 equivalent	Average contracted rate
Future receipts for export sales over the next 12 months			
USD5,000,000	US Dollar	17,080	1 USD = RM3.4161



## notes to the financial statements

### 29. financial instruments (continued)

#### (b) Currency Exchange Risk Management (continued)

##### Group (continued):

At 31 December 2008, the settlement dates on open forward contracts range between 3 February 2009 to 15 December 2009. The contracted exchange rate and amount of the Group's outstanding contracts are as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD1,000,000	US Dollar	3,429	1 USD = RM3.4290
GBP6,495,912	Pound Sterling	35,444	1 GBP = RM5.4565
EUR3,390,000	Euro	83,583	1 EUR = RM4.5799

##### Company:

At 31 December 2009, the settlement dates on open forward contracts range between 25 February 2010 to 27 August 2010. The contracted exchange rate and amount of the Group's outstanding contracts are as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
Future payment for services over the next 12 months			
GBP5,800,000	Pound Sterling	31,707	1 GBP = RM5.5043

At 31 December 2008, the settlement dates on open forward contracts range between 3 February 2009 to 15 December 2009. The contracted exchange rate and amount of the Company's outstanding contracts are as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
Future payment for services over the next 12 months			
GBP4,545,912	Pound Sterling	25,022	1 GBP = RM5.5043

The Group's net loss at 31 December 2009 on open contracts which hedge anticipated future foreign currency purchases and sales amounted to approximately RM25,000 (2008: net gain of RM968,000). The Company's net gain at 31 December 2009 on open contracts which hedge anticipated future foreign currency purchases amounted to approximately RM483,000 (2008: net loss of RM2,307,000). These net exchange gains and losses are deferred until the related purchases and sales are transacted, at which time they are included in the measurement of such transactions.

#### (c) Price Risk Management

The Group is exposed to price risk relating to leaf purchases, which are included in raw materials disclosed in Note 18. The Group reviews sourcing strategies as and when required, to manage any adverse exposures.

**29. financial instruments (continued)****(d) Credit Risk Management**

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, setting of counterparty limits and monitoring procedures. The Group seeks to invest cash assets safely and profitably. Credit risks are minimised given the Group's policy of selecting only counterparties with high creditworthiness.

Approximately 50% of the Group's trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The Group has no other significant concentrations of credit risk, notwithstanding that the majority of its deposits are placed with financial institutions in Malaysia. The likelihood of non-performance by these financial institutions is remote based on their high credit ratings.

**(e) Liquidity and Cash Flow Risks**

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and finding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions so as to achieve overall cost effectiveness.

**(f) Fair Values**

The carrying amounts of financial assets and liabilities of the Group and Company at the balance sheet date approximated their fair values except as set out below:

		Group		Company	
	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>At 31 December 2009</b>					
Non current borrowings					
RM400 million MTNs	22	400,000	405,640	400,000	405,640
RM250 million MTNs	22	250,000	251,850	250,000	251,850
<b>Derivative financial instruments held to manage currency exposures</b>					
Unrealised (loss)/gain on foreign currency forward exchange contracts	29(b)	—	(25)	—	483
<b>At 31 December 2008</b>					
Current borrowings					
RM100 million MTNs	22	100,000	99,000	100,000	99,000
RM150 million MTNs	22	150,000	145,860	150,000	145,860
Non current borrowings					
RM400 million MTNs	22	400,000	398,600	400,000	398,600
<b>Derivative financial instruments held to manage currency exposures</b>					
Unrealised gain/(loss) on foreign currency forward exchange contracts	29(b)	—	968	—	(2,307)

## notes to the financial statements

### 30. share-based payments

The expense recognised for employee services received during the year is as follows:

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Expenses arising from equity-settled share-based payment transactions	5,320	4,158	3,133	2,638

The expenses arose as a result of a number of the Group and Company employees' participation in the employee share schemes offered by British American Tobacco p.l.c. during their employment with the Group (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). The details of the employee share schemes are as follows:

	Method of Settlement and Timing of Grant	Contractual Life	Vesting Conditions
Deferred Share Bonus Scheme	Equity-settled grants. (Timing of grant: Annually in March)	3 Years	Free shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend during the holding period.
International Share Reward Scheme	Equity-settled grants. (Timing of grant: Annually in April)	3 Years	Free shares granted subject to three year holding period and may be subject to forfeit if employee leaves within this period.
Share Option Scheme	Equity-settled grants. (The granting of options under this scheme ceased with the last grant made in March 2004)	10 Years	Options exercisable three years from date of grant and subject to earnings per share performance.
Long Term Incentive Plan	Equity-settled grants. (Timing of grant: Annually in March)	10 Years	Nil-cost options exercisable three years from date of grant, with payout subject to performance conditions based on earnings per share relative to inflation (50% of grant) and total shareholder return.

**30. share-based payments (continued)****(a) Equity share-based payment arrangements (other than share options)**

Details of the movements of equity share-based payment arrangements (other than share options) during the year ended 31 December 2009, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	Group		Company	
	2009	2008	2009	2008
Outstanding at start of year	<b>70,158</b>	86,794	<b>34,213</b>	43,687
Granted during the period	<b>36,229</b>	19,801	<b>19,706</b>	10,162
Exercised during the period	<b>(28,146)</b>	(36,437)	<b>(16,297)</b>	(19,636)
Outstanding at end of year	<b>78,241</b>	70,158	<b>37,622</b>	34,213

The shares outstanding for the year ended 31 December 2009 for the Group and Company had a weighted average contractual life of 1.3 years (2008: 1.1 years) and 1.5 years (2008: 1.1 years) respectively.

The weighted average fair value equity share-based payment arrangements granted during 2009 for the Group and Company were £13.48 (2008: £17.13) and £13.49 (2008: £17.09) respectively.

**(b) Share option schemes**

Details of the movements for the equity-settled Share Option Scheme during the year ended 31 December 2009 are as follows:

	Group			
	2009 Number of British American Tobacco p.l.c. options	2009 Weighted average exercise price per share (£)	2008 Number of British American Tobacco p.l.c. options	2008 Weighted average exercise price per share (£)
Outstanding at start of year	<b>33,178</b>	<b>7.62</b>	41,042	7.42
Exercised during the period	<b>(2,373)</b>	<b>8.09</b>	(4,110)	5.98
Forfeited during the period	—	—	(3,754)	8.09
Outstanding at end of year	<b>30,805</b>	<b>7.58</b>	33,178	7.62
Exercisable at end of year	<b>30,805</b>	<b>7.58</b>	33,178	7.62

## notes to the financial statements

### 30. share-based payments (continued)

#### (b) Share option schemes (continued)

	Company			
	2009 Number of British American Tobacco p.l.c. options	2009 Weighted average exercise price per share (£)	2008 Number of British American Tobacco p.l.c. options	2008 Weighted average exercise price per share (£)
Outstanding at start of year	7,824	8.09	7,824	8.09
Exercised during the period	—	—	—	—
Outstanding at end of year	7,824	8.09	7,824	8.09
Exercisable at end of year	7,824	8.09	7,824	8.09

In addition to the above options, the movement in nil-cost equity-settled options from the Long Term Incentive Plan was as follows:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	Group		Company	
	2009	2008	2009	2008
Outstanding at start of year	117,286	174,029	64,453	130,393
Granted during the period	44,722	36,248	28,459	25,034
Exercised during the period	(38,854)	(82,728)	(24,949)	(80,711)
Forfeited during the period	(155)	(10,263)	(155)	(10,263)
Outstanding at end of year	122,999	117,286	67,808	64,453
Exercisable at end of year	16,761	20,039	3,912	6,113



**30. share-based payments (continued)****(b) Share option schemes (continued)**

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period for the Group and Company was £17.79 (2008: £18.84) and £16.73 (2008: £18.78) respectively.

A detailed breakdown of the range of exercise prices for options outstanding at the end of 31 December 2009 is shown in the tables below:

	<b>Group</b>					
	<b>2009</b>			<b>2008</b>		
	<b>Number of options at end of year</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price per share (£)</b>	<b>Number of options at end of year</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price per share (£)</b>
<b>Long Term Incentive Plan</b>						
Nil cost	122,999	8.1	—	117,286	7.8	—
<b>Share Option Scheme</b>						
£5.00 to £6.99	7,392	3.2	5.98	7,392	4.2	5.98
£7.00 to £8.99	23,413	4.2	8.09	25,786	5.2	8.09
<b>Total</b>	<b>153,804</b>	<b>7.2</b>	<b>1.52</b>	<b>150,464</b>	<b>7.2</b>	<b>1.10</b>

	<b>Company</b>					
	<b>2009</b>			<b>2008</b>		
	<b>Number of options at end of year</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price per share (£)</b>	<b>Number of options at end of year</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price per share (£)</b>
<b>Long Term Incentive Plan</b>						
Nil cost	67,808	8.4	—	64,453	8.0	—
<b>Share Option Scheme</b>						
£7.00 to £8.99	7,824	4.2	8.09	7,824	5.2	8.09
<b>Total</b>	<b>75,632</b>	<b>7.9</b>	<b>0.84</b>	<b>72,277</b>	<b>7.7</b>	<b>0.56</b>

The weighted average fair value of equity-settled share option schemes granted during 2009 for the Group and the Company was £12.80 (2008: £12.80).

## notes to the financial statements

### 30. share-based payments (continued)

#### (c) Assumptions used

Assumptions used in the Black-Scholes Models to determine the fair value of share-based payment arrangements were as follows:

	Group and Company					
	Long Term Incentive Plan		Deferred Share Bonus Scheme		International Share Reward Scheme	
	2009	2008	2009	2008	2009	2008
Share price at date of grant (£)	<b>£15.79</b>	£19.03	<b>n/a</b>	n/a	<b>n/a</b>	n/a
Grant price (£)	<b>n/a</b>	n/a	<b>£15.79</b>	£19.03	<b>£16.11</b>	£19.22
Exercise price (£)	<b>nil cost</b>	nil cost	<b>n/a</b>	n/a	<b>n/a</b>	n/a
Volatility (%)	<b>24</b>	18	<b>24</b>	18	<b>24</b>	18
Average expected term to exercise (years)	<b>3.5</b>	3.5	<b>3.0</b>	3.0	<b>5.0</b>	5.0
Risk free rate (%)	<b>2.1</b>	3.9	<b>2.0</b>	3.9	<b>2.3</b>	4
Expected dividend yield (%)	<b>5.3</b>	3.7	<b>5.3</b>	3.7	<b>5.2</b>	3.7

Assumptions used in the Monte-Carlo Models to determine the fair value of share-based payment arrangements are as follows:

	Group and Company	
	2009	2008
Average share price volatility FTSE100* comparator group (%)	<b>35</b>	26
Average share price volatility FMCG** comparator group (%)	<b>24</b>	19
Average correlation FTSE100 comparator group (%)	<b>38</b>	31
Average correlation FMCG comparator group (%)	<b>32</b>	18

\* Financial Times Stock Exchange

\*\* Fast Moving Consumer Goods

Market condition features were incorporated into Monte-Carlo models for the total shareholder return elements of the Long Term Incentive Plan in determining fair value at grant date.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the daily share price movements over a five year period. The respective FMCG and FTSE100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price. For grants containing earnings per share performance conditions, the payout calculation is based on the expectations based on published analysts' forecasts.

### 31. approval of financial statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 11 February 2010.

# analysis of shareholdings

as at 25 february 2010

## share capital

Authorised Share Capital : RM385,000,000 comprising 770,000,000 ordinary shares of RM0.50 each  
 Issued and Fully Paid-Up Share Capital : RM142,765,000 comprising 285,530,000 ordinary shares of RM0.50 each  
 Voting Rights : One vote per ordinary share

## distribution of shareholdings

(without aggregating the securities from different securities accounts belonging to the same Depositor)

Size of Shareholdings	Number of Shareholders	% of Shareholders	Number of Shares Held	% of Issued Shares
Less than 100 shares	472	9.8	9,159	0.00 <sup>3</sup>
100 – 1,000 shares	2,504	51.98	1,156,630	0.41
1,001 – 10,000 shares	1,323	27.46	5,065,961	1.77
10,001 – 100,000 shares	389	8.08	11,811,234	4.14
100,001 – 14,276,499 shares <sup>1</sup>	127	2.64	106,855,016	37.42
14,276,500 shares and above <sup>2</sup>	2	0.04	160,632,000	56.26
<b>Total</b>	<b>4,817</b>	<b>100.00</b>	<b>285,530,000</b>	<b>100.00</b>

### Notes:

<sup>1</sup> Less than 5% of issued shares

<sup>2</sup> 5% and above of issued shares

<sup>3</sup> Less than 0.01%

## directors' direct interests in shares in the company

Name	Number of Shares Held	% of Issued Shares
Tan Sri Abu Talib bin Othman	41,000	0.02
Datuk Oh Chong Peng	1,000	0.00 <sup>1</sup>
James Richard Suttie	1,500	0.00 <sup>1</sup>
Dato' Chan Choon Ngai	1,000	0.00 <sup>1</sup>

## directors' indirect interests in shares in the company

James Richard Suttie	3,000	0.00 <sup>1</sup>
Dato' Chan Choon Ngai	6,000	0.00 <sup>1</sup>

### Note:

<sup>1</sup> Less than 0.01%

## substantial shareholders based on the register of substantial shareholders

Name	Number of Shares Held	% of Issued Shares
1. British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.00
2. AmanahRaya Trustees Berhad – Skim Amanah Saham Bumiputera	17,867,000	6.26

**top 30 securities account holders**

(without aggregating the securities from different securities accounts belonging to the same Depositor)

No.	Name	Number of Shares Held	% of Issued Shares
1	British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
2	AmanahRaya Trustees Berhad – <i>Skim Amanah Saham Bumiputera</i>	17,867,000	6.26
3	Valuecap Sdn Bhd	12,293,500	4.31
4	Kumpulan Wang Persaraan (Diperbadankan)	9,076,800	3.18
5	Employees Provident Fund Board	8,390,887	2.94
6	Cartaban Nominees (Asing) Sdn Bhd – <i>SSBT Fund 4545 for Lazard Emerging Markets Portfolio</i>	5,623,000	1.97
7	AmanahRaya Trustees Berhad – <i>Amanah Saham Malaysia</i>	5,108,700	1.79
8	HSBC Nominees (Asing) Sdn Bhd – <i>TNTC For Saudi Arabian Monetary Agency</i>	5,089,000	1.78
9	Malaysia Nominees (Tempatan) Sendirian Berhad – <i>Great Eastern Life Assurance (Malaysia) Berhad (Par 1)</i>	4,225,300	1.48
10	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An for JPMorgan Chase Bank, National Association (JPM Funds)</i>	3,474,700	1.22
11	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas SECS SVS LUX for Aberdeen Global</i>	3,125,020	1.09
12	HSBC Nominees (Asing) Sdn Bhd – <i>BNP Paribas SECS SVS Paris for Aberdeen Asia Pacific Fund</i>	2,072,900	0.73
13	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An for JPMorgan Chase Bank, National Association (U.S.A.)</i>	1,748,700	0.61
14	HSBC Nominees (Asing) Sdn Bhd – <i>BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund</i>	1,632,205	0.57
15	AmanahRaya Trustees Berhad – <i>As 1MALAYSIA</i>	1,619,200	0.57
16	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An for The Bank of New York Mellon (Mellon Acct)</i>	1,558,230	0.55
17	Citigroup Nominees (Tempatan) Sdn Bhd – <i>Exempt An for American International Assurance Berhad</i>	1,490,400	0.52
18	HSBC Nominees (Asing) Sdn Bhd – <i>Exempt An for JPMorgan Chase Bank, National Association (U.K.)</i>	1,474,000	0.52
19	Cartaban Nominees (Asing) Sdn Bhd – <i>Exempt An for RBC Dexia Investor Services Trust (Clients Account)</i>	1,339,000	0.47

No.	Name	Number of Shares Held	% of Issued Shares
20	HSBC Nominees (Asing) Sdn Bhd – Exempt An for JPMorgan Chase Bank, National Association (U.A.E.)	1,261,855	0.44
21	HSBC Nominees (Asing) Sdn Bhd – BBH and Co Boston for Merrill Lynch Global Allocation Fund	1,116,300	0.39
22	HSBC Nominees (Asing) Sdn Bhd – TNTC for Sanderson International Value Fund	1,051,000	0.37
23	Cartaban Nominees (Asing) Sdn Bhd – Government of Singapore Investment Corporation Pte Ltd for Government of Singapore (C)	963,600	0.34
24	Cartaban Nominees (Asing) Sdn Bhd – State Street for Ishares, Inc.	923,000	0.32
25	Cartaban Nominees (Asing) Sdn Bhd – State Street London Fund XCP2 for Aberdeen Asian Income Fund Limited	900,000	0.31
26	Citigroup Nominees (Asing) Sdn Bhd – CBNY for AGF Emerging Markets Fund	836,300	0.29
27	Citigroup Nominees (Tempatan) Sdn Bhd – Exempt An for Prudential Fund Management Berhad	780,800	0.27
28	Citigroup Nominees (Asing) Sdn Bhd – CBHK for Kuwait Investment Authority (Fund 221)	780,000	0.27
29	Cartaban Nominees (Asing) Sdn Bhd – State Street London Fund VE9L for The Local Government Pensions Institution	700,700	0.24
30	Cartaban Nominees (Asing) Sdn Bhd – RBC Dexia Investor Services Bank for Vontobel Fund – Far East Equity	654,200	0.23
<b>TOTAL</b>		<b>239,941,297</b>	<b>84.03</b>



## particulars of properties

The properties held by the Group and Company as at 28 February 2010 are as follows:-

Location	Date of Purchase/ Last Revaluation	Usage	Approx. Age of Building (Years)	Land/ Built-Up Area (square metres)	Net Book Value RM'000
<b>Freehold</b>					
No. 36 & 36A, Jalan Lengkok Canning Ipoh Garden, Ipoh, Perak	30.11.89	shop and office	21	143.07	91
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.94	shop and office	18	110.59	222
<b>Leasehold</b>					
Lots 122 and 124, Jalan Universiti Petaling Jaya, Selangor (99 years lease expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.61	factory, office and store	48	46,905.44	71,005
Lots P.T. 683-685, 687-689 Mukim of Panchor, District of Kemumin Kawasan Perindustrian Pengkalan Chepa II Kota Bharu, Kelantan (66 years lease expiring 25.7.2048)	26.7.82	industrial land, store and office	22	29,952.00	5,157
Lot 2948, Country Lease No. 135345103 Mukim of Keningau, Sabah (99 years lease expiring 31.7.2062)	22.11.95	store, office and residence (asset held for sale)	17	8,093.71	1,950
No. 2, Jalan Foochow, Kuching, Sarawak (999 years lease expiring 31.12.2923)	3.10.91	shop and office	20	156.10	195
No. 120, Jalan Semangat, Petaling Jaya Selangor (99 years lease expiring 12.7.2061)	24.5.93	office and store	34	6,119.00	5,144
Lot 1, Block A Hong Tong Centre Miles 4, Penampang, Kota Kinabalu, Sabah (99 years lease expiring 31.12.2080)	30.9.99	shop and office	16	136.56	432
No. 8, Jalan Melaka Raya 13 Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.96	shop and office	15	143.00	293
L.O. 76/65, Kawasan Perindustrian Batu Tiga Shah Alam, Selangor (99 years lease expiring 8.9.2066)	8.9.67	offices and factory	42	40,603.00	20,593
GM9, Lot 1709, Semerak, Pasir Puteh, Kelantan (33 years lease expiring 23.9.2017)	24.9.84	residence (investment property)	23	10,380.00	146
Lots 2430 & 2431, HS(M) 6/83, Mukim of Wakaf Delima, Wakaf Bharu, Kelantan (45 years lease expiring 3.1.2029)	4.1.84	offices and store (investment property)	43	10,467.00	1,505
K.M. 5.5, Jalan Bukit Kayu Hitam Changloon, Kedah (30 years lease expiring 6.7.2021)	7.7.91	offices and agricultural land (asset held for sale)	21	285,510.00	888

**HEAD OFFICE:****BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD (Company No. 4372-M)**

Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan

Tel: +60 (3)7956 6899/7491 7100 Fax: +60 (3)7955 8416

**TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD (Company No. 4414-U)****Factories**

Virginia Park, Jalan Universiti  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : +60 (3)7956 6899/7491 7100  
Fax : +60 (3)7955 8416

**Leaf Warehouse**

Jalan Pelaya 15/1  
40000 Shah Alam  
Selangor Darul Ehsan  
Tel : +60 (3)5519 1187/5519 1040  
Fax : +60 (3)5510 8886

**COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD. (Company No. 42316-T)****Branch Offices**

**Pulau Pinang**  
No. 50 Weld Quay  
10300 Pulau Pinang  
Tel : +60 (4)261 8840  
Fax : +60 (4)261 8799

**Ipoh**

No. 36 & 36A, Jalan Lengkok Canning  
Ipoh Garden, 31400 Ipoh  
Perak Darul Ridzuan  
Tel : +60 (5)547 7878/546 2187  
Fax : +60 (5)547 4268

**Petaling Jaya**

No. 3, Jalan Industri PBP 3  
Taman Perindustrian Pusat Bandar  
Puchong, 47100 Puchong  
Selangor Darul Ehsan  
Tel : +60 (3)5891 9888  
Fax : +60 (3)5891 9882

**Melaka**

8, Jalan Melaka Raya 13  
Taman Melaka Raya, 75000 Melaka  
Tel : +60 (6)282 5435/284 6593  
Fax : +60 (6)283 5168

**Johor Bahru**

No. 4 Jalan Asas, Larkin Industrial Estate  
80350 Johor Bahru, Johor Darul Takzim  
Tel : +60 (7)232 4688  
Fax : +60 (7)238 6208

**Kuantan**

A79, Jalan Telok Sisek  
25000 Kuantan, Pahang Darul Makmur  
Tel : +60 (9)517 8373/517 7831  
Fax : +60 (9)517 7484

**Kota Bharu**

Lot PT 1453 & 1454, 1st Floor  
Kawasan Perindustrian  
Pengkalan Chepa 2  
Seksyen 39 Kemumin  
16100 Kota Bharu, Kelantan Darul Naim  
Tel.: +60 (9)773 8831/773 8873  
Fax.: +60 (9)773 8968

**Kota Kinabalu**

Lot 1, Block A Hong Tong Centre  
Mile 4, Penampang  
88813 Kota Kinabalu, Sabah  
Tel : +60 (88)722 628/722 629  
Fax : +60 (88)722 630

**Kuching**

Lot 8943, Section 64, KTLD  
No. 2, Jalan Foochow  
93300 Kuching, Sarawak  
Tel : +60 (82)481 884/481 886  
Fax : +60 (82)335 490

**THE LEAF TOBACCO DEVELOPMENT CORPORATION OF MALAYA SDN. BERHAD**

(Company No. 4998-P)

**Leaf Office****Kota Bharu**

Lot No. 2952, Kawasan Perindustrian  
Pengkalan Chepa II  
Jalan Padang Tembak  
16100 Kota Bharu  
Kelantan Darul Naim  
Tel : +60 (9)774 7400/774 7434  
Fax : +60 (9)773 5855

**COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.**

(Incorporated in Negara Brunei Darussalam)

Unit 4, Block B  
Lot 1150, EDR 2244  
Latifuddin Complex  
Jalan Tungku Link  
Menglait, Gadong, BE 3619  
Negara Brunei Darussalam  
Tel : +(673) 245 2975  
Fax : +(673) 245 2974

NOTICE IS HEREBY GIVEN that the **49th Annual General Meeting of British American Tobacco (Malaysia) Berhad (BATM)** will be held at **Kristal Ballroom, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan** on **Tuesday, 20 April 2010** at **11.00 a.m.** for the following purposes:

#### as ordinary business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2009 and the Reports of the Directors and Auditors thereon.  
(Ordinary Resolution 1)
2. To sanction the declaration and payment of a final dividend.  
(Ordinary Resolution 2)
3. To re-elect the following Directors who retire by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association:
  - (i) Stephen James Rush (Ordinary Resolution 3)
  - (ii) Dato' Chan Choon Ngai (Ordinary Resolution 4)
4. To consider and if thought fit, to pass the following Ordinary Resolution in accordance with Section 129(6) of the Companies Act, 1965:-  
  
 "THAT Tan Sri Abu Talib bin Othman, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company."  
 (Ordinary Resolution 5)
5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. (Ordinary Resolution 6)

#### as special business

6. To consider and if thought fit, to pass the following Ordinary Resolution:

**PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD ("BATM" or "the Company") AND ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY TRANSACTIONS ("Recurrent RPTs") OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES ("PROPOSED RENEWAL OF THE RECURRENT RPTs MANDATE")**

(Ordinary Resolution 7)

"THAT, the Original Mandate (as defined in the Circular to Shareholders dated 25 March 2010) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or its subsidiaries (British American Tobacco Malaysia Group) to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) of British American Tobacco Malaysia Group with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 of the Circular to Shareholders dated 25 March 2010 which are necessary for the British American Tobacco Malaysia Group's day-to-day operations, be and is hereby renewed provided that:

- (i) the transaction are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- (ii) disclosure of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year,

# notice of annual general meeting

AND THAT the authority conferred by such renewed mandate shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed Renewal of the Recurrent RPTs Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of the Recurrent RPTs Mandate."

- 7. To consider any other business of which due notice shall have been given.

By Order of the Board



**CHAN MEI MAE**  
Secretary  
LS0009460

Petaling Jaya  
25 March 2010

#### NOTES:

1. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
3. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised by the corporation.
5. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the proxy form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
6. The original proxy form must be duly executed and deposited at the Registrar of the Company at Tricor Investor Services Sdn Bhd (formerly known as *Tenaga Koperat Sdn Bhd*), Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjourned meeting thereof.
7. **Registration of Members/Proxies**  
Registration of Members/Proxies attending the meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
8. **Explanatory Note on Special Business**

#### Recurrent Related Party Transactions Mandate

The Ordinary Resolution 7, if passed, will enable British American Tobacco (Malaysia) Berhad and its subsidiaries ("British American Tobacco Malaysia Group") to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day to day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Further information on the Proposed Renewal of Shareholders' Mandate for the Company and its subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature with Related Parties is set out in the Circular to Shareholders dated 25 March 2010, which is despatched together with the Company's 2009 Abridged Annual Report.

20 april  
2010

## administrative details for British American Tobacco Malaysia 49th annual general meeting

**Date :** Tuesday, 20 April 2010

**Time :** 11.00 a.m.

**Place :** Kristal Ballroom, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan

### registration

1. Registration will start at 9.00 a.m. at the entrance of Kristal Ballroom and will close at 11.00 a.m. sharp.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the meeting and join the queue accordingly.
3. Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
5. You will be given a security sticker and no person will be allowed to enter the meeting room without the security sticker. There will be no replacement in the event that you lose or misplace the security sticker.
6. After registration, please leave the registration area immediately and proceed to Kristal Ballroom.
7. You are not allowed to register on behalf of another person even with the original IC of the other person.
8. The registration counter only handles verification and registration.

### help desk

9. Please proceed to the Help Desk for any clarification or queries.

### entitlement to attend and vote

10. Only shareholders registered in the Register of Members and Record of Depositors as at **5.00 p.m. on 12 April 2010** shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time.

### proxy

11. If you are a member of the Company at the time set out above, you are entitled to appoint not more than two (2) proxies to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
12. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

13. To appoint a proxy, the original proxy form which is attached together with the Company's 2009 Abridged Annual Report must be completed and signed, sent and delivered to the Share Registrar, Tricor Investor Services Sdn Bhd (*formerly known as Tenaga Koperat Sdn Bhd*), Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by **18 April 2010 at 11.00 a.m.**
14. In the case of a member which is a corporation, the proxy form must be executed either under its seal or under the hand of any officer or attorney duly authorised by the corporation.

### revocation of proxy

15. If you wish to appoint a proxy, please note that a proxy may be revoked by:
  - i. attendance of the appointer at the Annual General Meeting and exercising his/her voting rights at the Annual General Meeting personally will automatically revoke the proxy;
  - ii. notice of revocation of the proxy form or the authority served by 18 April 2010 at 11.00 a.m.;
  - iii. appointing new proxy by depositing a new proxy form in favour of another person by 18 April 2010 at 11.00 a.m.; and
  - iv. transfer of shares by the appointer.

### annual report 2009

16. The full Annual Report 2009 is available on the Company's website at [www.batmalaysia.com](http://www.batmalaysia.com) under Investors Section.

### enquiry

17. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at 603-7956 6899 or the following person during office hours:

Name : Ms. Lim Lay Kiow  
 Share Registrar : Tricor Investor Services Sdn Bhd  
*(formerly known as*  
*Tenaga Koperat Sdn Bhd)*  
 Telephone number : 603-2264 3890



# proxy form

## BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)

(Incorporated in Malaysia)



I/We \_\_\_\_\_ (NRIC/Co. No.: \_\_\_\_\_)

of \_\_\_\_\_

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint \_\_\_\_\_

\_\_\_\_\_ (NRIC/Co. No.: \_\_\_\_\_) of \_\_\_\_\_

and/or failing him/her \_\_\_\_\_ (NRIC/Co. No.: \_\_\_\_\_)

of \_\_\_\_\_

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the 49th Annual General Meeting of the Company, to be held on the 20th day of April 2010 at 11.00 a.m., and at any adjournment thereof.

My/our proxy is to vote either on a show of hands or on a poll as indicated below with an "X":

Resolutions		For	Against
Ordinary Resolution 1	Receive the Audited Financial Statements for the financial year ended 31 December 2009 and the Reports of the Directors and Auditors thereon.		
Ordinary Resolution 2	Sanction the declaration and payment of a final dividend.		
Ordinary Resolution 3	Re-elect Mr. Stephen James Rush who retires by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 4	Re-elect Dato' Chan Choon Ngai who retires by rotation in accordance with Articles 97 (1) and (2) of the Company's Articles of Association.		
Ordinary Resolution 5	Re-appointment of Tan Sri Abu Talib Bin Othman in accordance with Section 129(6) of the Companies Act, 1965.		
Ordinary Resolution 6	Re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.		
Ordinary Resolution 7	Proposed Renewal of Shareholders' Mandate for British American Tobacco (Malaysia) Berhad and its Subsidiaries to enter into Recurrent Related Party Transactions of a revenue or trading nature with Related Parties.		

No. of Shares held

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010.

\_\_\_\_\_  
Signature of Member(s)/Seal

### Notes:

1. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
3. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised by the corporation.
5. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the proxy form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
6. The original proxy form must be duly executed and deposited at the Share Registrar of the Company at Tricor Investor Services Sdn Bhd (formerly known as Tenaga Koperat Sdn Bhd), Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjourned meeting thereof.



Please fold here to seal

affix  
postage  
stamp

The Share Registrar  
**Tricor Investor Services Sdn Bhd**  
*(formerly known as Tenaga Koperat Sdn Bhd)* (Company No. 118401-V)  
Level 17, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur, Malaysia

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