Financial Statements

DIRECTORS'
RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act 2016 (the "Act") to prepare the financial statements for each financial year which have been made out in accordance with the provisions of the Act and the applicable approved accounting standards set out by Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year as well as of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors are satisfied that the applicable approved accounting standards in Malaysia have been complied with and reasonable and prudent judgments and estimates have been made.

The Directors are responsible to ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the Act.

The Directors have overall responsibility for taking such steps necessary to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

DIRECTORS' REPORT
for the year ended 31 December 2020

The Directors have pleasure in submitting their report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2020.

Principal Activities

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

There have been no significant changes in the nature of the Company's activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to shareholders of the Company	241,839	285,462

Reserves and Provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid:

i) fourth interim ordinary dividend of 33.0 sen per ordinary share totalling RM94,224,900 in respect of the financial year ended 31 December 2019 on 18 March 2020.

ii) first interim ordinary dividend of 17.0 sen per ordinary share totalling RM48,540,100 in respect of the financial year ended 31 December 2020 on 18 June 2020.

iii) second interim ordinary dividend of 18.0 sen per ordinary share totalling RM51,395,400 in respect of the financial year ended 31 December 2020 on 19 August 2020.

iv) third interim ordinary dividend of 21.0 sen per ordinary share totalling RM59,961,300 in respect of the financial year ended 31 December 2020 on 25 November 2020.

The Directors declared a fourth interim ordinary dividend of 27.0 sen per ordinary share at the Board of Directors' meeting on 10 February 2021 amounting to RM77,093,100 in respect of the financial year ended 31 December 2020 which will be paid on 9 March 2021 to shareholders registered in the Company's Register of Members at the close of business on 26 February 2021. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2021.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2020.

DIRECTORS' REPORT
for the year ended 31 December 2020

Directors of the Company

Directors who served during the financial year until the date of this report are:

Tan Sri Dato' Seri (Dr) Aseh Bin Haji Che Mat (Chairman)
Dato' Chan Choon Ngai
Datuk Zainun Aishah Binti Ahmad
Datuk Lee Oi Kuan (f)
Eric Ooi Lip Aun
Hendrik Stoel (Resigned on 31 March 2020)
Jonathan Darlow Reed (Appointed on 20 February 2020)
Ignacio Ballester

The name of the directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report are:

Genevieve Hiew (f) (Appointed on 31 March 2020)
C.K. Remeena A/P C.K. Prabhakaran (f) (Appointed on 20 November 2020)
Yap Chee Keong (Resigned on 31 March 2020)
Song Yik Lin (f)

Directors' Interests in Shares

The interests in the ordinary shares and share options of the Company and of its related corporations of those who were Directors at the end of the financial year as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2020	Bought	Sold	At 31.12.2020
Company				
Shareholdings in the name of the Director:				
Dato' Chan Choon Ngai	1,000	-	-	1,000
Datuk Lee Oi Kuan (f)	100	-	-	100

DIRECTORS' REPORT
for the year ended 31 December 2020

Directors' Interests in Shares (continued)

	Number of ordinary shares in British American Tobacco p.l.c.			
	At 1.1.2020/ *date of appointment	Bought	Sold	At 31.12.2020
Ultimate Holding Company				
- British American Tobacco p.l.c.				
Shareholdings in the name of the Director:				
Jonathan Darlow Reed	278	-	-	278
Datuk Lee Oi Kuan (f)	27,368	4,494	(1,492)	30,370
Ignacio Ballester	15,149	14,536	(12,139)	17,546

	Number of ordinary shares in British American Tobacco p.l.c.			
	At 1.1.2020/ *date of appointment	Awarded	Vested	At 31.12.2020
Ultimate Holding Company				
- British American Tobacco p.l.c.				
Deferred Share Bonus Scheme & International Share Reward Scheme				
Shareholdings in the name of the Director:				
Jonathan Darlow Reed	4,237	1,950	(923)	5,264
Ignacio Ballester	4,577	2,104	(929)	5,752

DIRECTORS' REPORT
for the year ended 31 December 2020

Directors' Interests in Shares (continued)

	Number of options in ordinary shares in British American Tobacco p.l.c.				
	At 1.1.2020/ *date of appointment	Granted	Exercised	Lapsed	At 31.12.2020
Ultimate Holding Company					
- British American Tobacco p.l.c.					
Long-Term Incentive Plan					
Shareholdings in the name of the Director:					
Jonathan Darlow Reed					
LTIP (27 March 2025)	1,866	-	(1,866)	-	-
LTIP (27 March 2027)	1,484	-	(1,037)	(447)	-
LTIP (26 March 2028)	2,095	-	-	-	2,095
LTIP (28 March 2029)	2,726	-	-	-	2,726
LTIP (30 March 2030)	-	8,429	-	-	8,429
Ignacio Ballester					
LTIP (25 March 2020)	1,024	-	(1,024)	-	-
LTIP (25 March 2021)	622	-	(622)	-	-
LTIP (22 March 2023)	96	-	(96)	-	-
LTIP (28 March 2024)	1,010	-	(1,010)	-	-
LTIP (27 March 2025)	1,987	-	(1,987)	-	-
LTIP (12 May 2026)	1,360	-	(1,360)	-	-
LTIP (27 March 2027)	1,593	-	(1,113)	(480)	-
LTIP (26 March 2028)	2,238	-	-	-	2,238
LTIP (28 March 2029)	2,901	-	-	-	2,901
LTIP (30 March 2030)	-	2,120	-	-	2,120

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 equity interest in the Company and is the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c. are provided in Note 24 to the financial statements.

DIRECTORS' REPORT
for the year ended 31 December 2020

Directors' Benefits

Since the end of the previous financial year, no Director has received nor become entitled to receive any benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 5 or the fixed salary of full time employees of the Company or of related corporations) 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 consultancy fees paid to a Director as disclosed in Note 5 to the financial statements.

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 requirements under the Companies Act 2016, 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 the ultimate holding company) as disclosed in Note 24 to the financial statements.

Issue of Shares and Debentures

There were no changes in the issued and paid-up capital of the Company during the financial year. There were no debentures issued during the financial year.

Options Granted over Unissued Shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and Insurance Costs

During the financial year, Directors and Officers of the Group are covered under the Directors' and Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total indemnity coverage and premiums paid in respect of Directors' and Officers' Liability Insurance for the Directors and Officers of the Group were RM4,143,000 and RM21,000 respectively.

There were no indemnity and insurance costs effected for auditors of the Group and of the Company during the financial year.

Other Statutory Information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amounts written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent; or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or

iii) which have arisen render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

DIRECTORS' REPORT
for the year ended 31 December 2020

Other Statutory Information (continued)

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liability of any other person; or

ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2020 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Holding Companies

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) as its immediate holding company and British American Tobacco p.l.c. (incorporated in England and Wales) as its ultimate holding company.

Auditors

The auditors, KPMG PLT, have indicated their willingness to continue in office. The Directors had endorsed the recommendation of the Audit Committee for KPMG PLT to be re-appointed as auditors.

The auditors' remuneration is disclosed in Note 4 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:

Jonathan Darlow Reed
Managing Director

Ignacio Ballester
Finance Director

Kuala Lumpur

Date: 10 February 2021

INCOME STATEMENTS

for the year ended 31 December 2020

		Group		Company	
	Note	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	3	**2,315,481**	2,508,554	**300,998**	323,493
Cost of sales		**(1,718,270)**	(1,790,905)	**-**	-
Gross profit		**597,211**	717,649	**300,998**	323,493
Other operating income		**899**	5,622	**507**	2,299
Distribution and marketing costs		**(150,505)**	(137,001)	**-**	-
Administrative expenses		**(91,663)**	(105,414)	**(7,196)**	(1,725)
Other operating expenses		**(9,485)**	(2,639)	**-**	-
Profit from operations		**346,457**	478,217	**294,309**	324,067
Finance costs		**(17,172)**	(15,963)	**(7,141)**	(16,270)
Profit before tax	4	**329,285**	462,254	**287,168**	307,797
Tax expense	7	**(87,446)**	(116,555)	**(1,706)**	(2,048)
Profit for the year		**241,839**	345,699	**285,462**	305,749

The notes on pages 135 to 203 are an integral part of these financial statements.

STATEMENTS OF
OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Profit for the year		**241,839**	345,699	**285,462**	305,749
Other comprehensive income, net of tax:					
Items that may be subsequently reclassified to income statement					
- changes in fair value of cash flow hedges	21	**(4,815)**	(2,480)	**-**	-
- deferred tax on fair value changes on cash flow hedges	14	**1,155**	595	**-**	-
Total other comprehensive expense for the financial year, net of tax		**(3,660)**	(1,885)	**-**	-
Total comprehensive income for the financial year		**238,179**	343,814	**285,462**	305,749
Profit attributable to:					
Shareholders of the Company		**241,839**	345,699	**285,462**	305,749
Total comprehensive income for the financial year attributable to:					
Shareholders of the Company		**238,179**	343,814	**285,462**	305,749
Basic earnings per ordinary share (sen)	8	**84.7**	121.1		

The notes on pages 135 to 203 are an integral part of these financial statements.

BALANCE SHEETS
as at 31 December 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Assets					
Property, plant and equipment	10	**57,540**	65,505	**30,070**	35,414
Computer software	11	**-**	1,429	**-**	3
Goodwill	12	**411,618**	411,618	**-**	-
Subsidiaries	13	**-**	-	**723,395**	973,395
Deferred tax assets	14	**15,455**	19,376	**3,771**	5,335
Total non-current assets		**484,613**	497,928	**757,236**	1,014,147
Assets held for sale	15	**-**	234	**-**	234
Inventories	16	**229,942**	98,251	**-**	-
Tax recoverable		**3,865**	8,222	**544**	2,038
Trade and other receivables	17	**396,454**	402,947	**13,089**	35,977
Derivative financial instruments	21	**93**	177	**-**	-
Cash and bank balances		**29,002**	20,386	**17,185**	12,286
Total current assets		**659,356**	530,217	**30,818**	50,535
Total assets		**1,143,969**	1,028,145	**788,054**	1,064,682
Equity					
Share capital		**142,765**	142,765	**142,765**	142,765
Cash flow hedge reserve		**(5,171)**	(1,511)	**-**	-
Retained earnings		**235,045**	247,327	**349,367**	318,026
Total equity attributable to the owners of the Company	18	**372,639**	388,581	**492,132**	460,791

BALANCE SHEETS
as at 31 December 2020
(continued)

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Liabilities					
Lease liabilities	22	**19,218**	21,844	**17,245**	20,707
Total non-current liabilities		**19,218**	21,844	**17,245**	20,707
Trade and other payables	19	**198,835**	170,661	**275,212**	580,605
Borrowings	20	**510,000**	421,000	**-**	-
Derivative financial instruments	21	**7,002**	2,171	**-**	-
Lease liabilities	22	**6,307**	4,357	**3,465**	2,579
Current tax liabilities		**29,968**	19,531	**-**	-
Total current liabilities		**752,112**	617,720	**278,677**	583,184
Total liabilities		**771,330**	639,564	**295,922**	603,891
Total equity and liabilities		**1,143,969**	1,028,145	**788,054**	1,064,682

The notes on pages 135 to 203 are an integral part of these financial statements.

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Note	|----------------Non-distributable----------------		|	Distributable	
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	Total RM'000
Group						
At 1 January 2020		142,765	(1,511)	-	247,327	388,581
Profit for the year		-	-	-	241,839	241,839
Other comprehensive (expense)/ income:						
- changes in fair value of cash flow hedges	21	-	(4,815)	-	-	(4,815)
- deferred tax on fair value changes on cash flow hedges	14	-	1,155	-	-	1,155
Total comprehensive income		-	(3,660)	-	241,839	238,179
Transactions with shareholders:						
Expense arising from equity-settled share-based payment transactions	24	-	-	2,960	-	2,960
Recharge of share-based payments	24	-	-	(2,960)	-	(2,960)
Dividends for financial year ended 31 December 2019						
- fourth interim	9	-	-	-	(94,225)	(94,225)
Dividends for financial year ended 31 December 2020						
- first interim	9	-	-	-	(48,540)	(48,540)
- second interim	9	-	-	-	(51,395)	(51,395)
- third interim	9	-	-	-	(59,961)	(59,961)
Total transactions with shareholders of the Company		-	-	-	(254,121)	(254,121)
At 31 December 2020		142,765	(5,171)	-	235,045	372,639

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(continued)

	Note	|----------------Non-distributable	----------------|		*Distributable*	
		Share capital RM'000	Cash flow hedge reserve RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	Total RM'000
Group						
At 1 January 2019		142,765	374	-	278,528	421,667
Profit for the year		-	-	-	345,699	345,699
Other comprehensive (expense)/ income:						
- changes in fair value of cash flow hedges	21	-	(2,480)	-	-	(2,480)
- deferred tax on fair value changes on cash flow hedges	14	-	595	-	-	595
Total comprehensive income		-	(1,885)	-	345,699	343,814
Transactions with shareholders:						
Expense arising from equity-settled share-based payment transactions	24	-	-	5,775	-	5,775
Recharge of share-based payments	24	-	-	(5,775)	-	(5,775)
Dividends for financial year ended 31 December 2018						
- fourth interim	9	-	-	-	(134,199)	(134,199)
Dividends for financial year ended 31 December 2019						
- first interim	9	-	-	-	(85,659)	(85,659)
- second interim	9	-	-	-	(74,238)	(74,238)
- third interim	9	-	-	-	(82,804)	(82,804)
Total transactions with shareholders of the Company		-	-	-	(376,900)	(376,900)
At 31 December 2019		142,765	(1,511)	-	247,327	388,581

The notes on pages 135 to 203 are an integral part of these financial statements.

STATEMENT OF
CHANGES IN EQUITY
for the year ended 31 December 2020

	Note	|--------Non-distributable--------| Share capital RM'000	Share-based payment reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
Company					
At 1 January 2020		142,765	-	318,026	460,791
Profit for the year		-	-	285,462	285,462
Total comprehensive income		-	-	285,462	285,462
Transactions with shareholders:					
Expense arising from equity-settled share-based payment transactions	24	-	2,118	-	2,118
Recharge of share-based payments	24	-	(2,118)	-	(2,118)
Dividend for financial year ended 31 December 2019					
- fourth interim	9	-	-	(94,225)	(94,225)
Dividends for financial year ended 31 December 2020					
- first interim	9	-	-	(48,540)	(48,540)
- second interim	9	-	-	(51,395)	(51,395)
- third interim	9	-	-	(59,961)	(59,961)
Total transactions with shareholders of the Company		-	-	(254,121)	(254,121)
At 31 December 2020		142,765	-	349,367	492,132

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(continued)

	Note	|--------*Non-distributable*--------|		*Distributable*	
		Share capital RM'000	Share-based payment reserve RM'000	Retained earnings RM'000	Total RM'000
Company					
At 1 January 2019		142,765	-	389,177	531,942
Profit for the year		-	-	305,749	305,749
Total comprehensive income		-	-	305,749	305,749
Transactions with shareholders:					
Expense arising from equity-settled share-based payment transactions	24	-	3,729	-	3,729
Recharge of share-based payments	24	-	(3,729)	-	(3,729)
Dividend for financial year ended 31 December 2018					
- fourth interim	9	-	-	(134,199)	(134,199)
Dividends for financial year ended 31 December 2019					
- first interim	9	-	-	(85,659)	(85,659)
- second interim	9	-	-	(74,238)	(74,238)
- third interim	9	-	-	(82,804)	(82,804)
Total transactions with shareholders of the Company		-	-	(376,900)	(376,900)
At 31 December 2019		142,765	-	318,026	460,791

The notes on pages 135 to 203 are an integral part of these financial statements.

STATEMENTS OF
CASH FLOWS
for the year ended 31 December 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Operating activities					
Cash receipts from customers and fellow subsidiaries		**2,355,177**	2,467,068	**119,115**	98,404
Cash paid to suppliers, employees and fellow subsidiaries		**(2,091,486)**	(2,019,307)	**(106,541)**	(76,764)
Dividends received from subsidiaries		**-**	-	**294,146**	314,101
Cash from operations	23	**263,691**	447,761	**306,720**	335,741
Income tax (paid)/refund		**(67,576)**	(116,673)	**1,352**	1,208
Net cash flow from operating activities		**196,115**	331,088	**308,072**	336,949
Investing activities					
Property, plant and equipment	10				
- additions		**(3,424)**	(7,399)	**(1,436)**	(1,603)
- disposals		**1,585**	3,212	**336**	258
Assets held for sale					
- disposals		**620**	1,330	**620**	1,330
Capital repayment from a subsidiary		**-**	-	**250,000**	-
Interest income received		**863**	1,163	**489**	794
Net cash flow (used in)/from investing activities		**(356)**	(1,694)	**250,009**	779

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2020
(continued)

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Financing activities					
Dividends paid to shareholders	9	**(254,121)**	(376,900)	**(254,121)**	(376,900)
Interest expense paid on borrowings		**(16,280)**	(14,849)	**(6,348)**	(15,264)
Net drawdown of borrowings	20	**89,000**	11,000	**-**	-
Repayment to subsidiary		**-**	-	**(289,442)**	(2,019)
Payment on lease liabilities		**(4,850)**	(5,772)	**(2,478)**	(3,583)
Interest paid in relation to lease liabilities		**(892)**	(1,114)	**(793)**	(1,006)
Net cash flow used in financing activities		**(187,143)**	(387,635)	**(553,182)**	(398,772)
Net increase/(decrease) in cash and bank balances		**8,616**	(58,241)	**4,899**	(61,044)
Cash and bank balances at 1 January		**20,386**	78,627	**12,286**	73,330
Cash and bank balances at 31 December		**29,002**	20,386	**17,185**	12,286

The notes on pages 135 to 203 are an integral part of these financial statements.

NOTES TO THE
FINANCIAL STATEMENTS

British American Tobacco (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the registered office and principal place of business of the Company is as follows:

Registered Office and Principal Place of Business
Level 19, Guoco Tower
Damansara City
No. 6 Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The Company is principally engaged in providing day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos, cigars and other tobacco products. The details of the subsidiaries are as stated in Note 13 to the financial statements.

The Directors regard British American Tobacco Holdings (Malaysia) B.V. (incorporated in Netherlands) and British American Tobacco p.l.c. (incorporated in England and Wales), as its immediate and ultimate holding company respectively.

These financial statements were authorised for issue by the Board of Directors on 10 February 2021.

1. Basis of Preparation

(a) Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

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

- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement*, MFRS 7, *Financial Instruments: Disclosures*, MFRS 4, *Insurance Contracts* and MFRS 16, *Leases – Interest Rate Benchmark Reform – Phase 2*

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

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation (continued)

(a) Statement of Compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*;
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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

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

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

- from the annual period beginning on 1 January 2021 for the amendment that is effective for annual periods beginning on or after 1 January 2021;
- from the annual period beginning on 1 January 2022 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2022; and
- from the annual period beginning on 1 January 2023 for those accounting standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2023.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual period beginning on 1 January 2023 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impact to the Group and the Company.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis other than disclosed in Note 2.

(c) Functional and Presentation Currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of Estimates and Judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation (continued)

(d) Use of Estimates and Judgements (continued)

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 10 – extension options and incremental borrowing rate in relation to lease
- Note 12 – impairment of goodwill
- Note 14 – deferred tax
- Note 30 – provision for restructuring expenses

2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by the Group entities, unless otherwise stated.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(ii) Business Combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(a) Basis of Consolidation (continued)

(ii) Business Combinations (continued)

When the excess is negative, a bargain purchase gain is recognised immediately in income statement.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling Interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

(iv) Loss of Control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated balance sheet. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

(v) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at financial year end are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(b) Foreign Currency (continued)

Foreign Currency Transactions (continued)

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

(c) Financial Instruments

(i) Recognition and Initial Measurement

A financial asset or a financial liability is recognised in the balance sheet when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial Instrument Categories and Subsequent Measurement

Financial Assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised Cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in income statement. Any gain or loss on derecognition is recognised in income statement.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit-impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(ii) Financial Instrument Categories and Subsequent Measurement (continued)

Financial Assets (continued)

(b) Fair Value through Other Comprehensive Income

(i) Debt Investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in income statement. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to income statement.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit-impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

(ii) Equity Investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in income statement unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses accumulated in other comprehensive income are not reclassified to income statement. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to income statement.

(c) Fair Value through Profit or Loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(ii) Financial Instrument Categories and Subsequent Measurement (continued)

Financial Assets (continued)

(c) Fair Value through Profit or Loss (continued)

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(k)(i)).

Financial Liabilities

The categories of financial liabilities at initial recognition are as follows:

(a) Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

(a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

(b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

(c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the income statement.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the income statement, unless the treatment of the effect of changes in the own credit risk would create or enlarge an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(ii) Financial Instrument Categories and Subsequent Measurement (continued)

Financial Liabilities (continued)

(b) Amortised Cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gains or losses is also recognised in the income statement.

(iii) Hedge Accounting

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash Flow Hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the income statement. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in the income statement. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into the income statement in the same year during which the hedged forecast cash flows affect the income statement. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into the income statement immediately.

The Group designate only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (“forward points”) and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

2. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

(iii) Hedge Accounting (continued)

Cash Flow Hedge (continued)

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to income statement in the same period or periods as the hedged expected future cash flows affect the income statement.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to income statement.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(d) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property, plant and equipment, except for freehold land, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within “other operating income” and “other operating expenses” respectively in the income statement.

(ii) Subsequent Costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to the income statement. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(d) Property, Plant and Equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative years are as follows:

Leasehold land	15 to 45 years
Buildings	35 to 40 years
Machinery and equipment	10 to 14 years
Furniture and fittings (including computer equipment and peripherals)	Various periods not exceeding 10 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(e) Leases

(i) Definition of a Lease Contract

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(e) Leases (continued)

(ii) Recognition and Initial Measurement

(a) As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in income statement in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

2. Significant Accounting Policies (continued)

(e) Leases (continued)

(ii) Recognition and Initial Measurement (continued)

(b) As a Lessor (continued)

The Group recognises assets held under a finance lease in its balance sheet and presents them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent Measurement

(a) As a Lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in income statement if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a Lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other operating income.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease. The Group aims to allocate finance income over the lease term on a systematic and rational basis. The Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. The net investment in the lease is subject to impairment requirements in MFRS 9, *Financial Instruments* (see Note 2(k)(i)).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(f) Intangible Assets

(i) Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses.

(ii) Other Intangible Assets

Intangible assets, other than goodwill, that are acquired by the Group and the Company, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative years are as follows:

Computer software	3 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate. The amortisation of computer software is recognised in administrative expenses.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(h) Contract Asset/Contract Liability

A contract asset is recognised when the Group's or the Company's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance to MFRS 9, *Financial Instruments* (see Note 2(k)(i)).

A contract liability is stated at cost and represents the obligation of the Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(i) Contract Cost

(i) Incremental Cost of Obtaining a Contract

The Group or the Company recognises incremental costs of obtaining contracts when the Group or the Company expects to recover these costs.

(ii) Cost to Fulfill a Contract

The Group or the Company recognises a contract cost that relate directly to a contract or to an anticipated contract as an asset when the cost generates or enhances resources of the Group or of the Company, will be used in satisfying performance obligations in the future and it is expected to be recovered.

These contract costs are initially measured at cost and amortised on a systematic basis that is consistent with the pattern of revenue recognition to which the asset relates. An impairment loss is recognised in the income statement when the carrying amount of the contract cost exceeds the expected revenue less expected cost that will be incurred. Where the impairment condition no longer exists or has improved, the impairment loss is reversed to the extent that the carrying amount of the contract cost does not exceed the amount that would have been recognised had there been no impairment loss recognised previously.

(j) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks, bank overdraft and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short-term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(k) Impairment

(i) Financial Assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(k) Impairment (continued)

(i) Financial Assets (continued)

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balances and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivable are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in the income statement and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in the income statement and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery amounts due.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(k) Impairment (continued)

(ii) Other Assets

The carrying amounts of other assets (except for inventories, contract assets, lease receivables, non-current assets or disposal group classified as held for sale and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets with indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the financial year in which the reversals are recognised.

(l) Equity Instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue Expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(l) Equity Instruments (continued)

(ii) Ordinary Shares

Ordinary shares are classified as equity.

(m) Employee Benefits

(i) Short-term Employee Benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State Plans

The Group's contributions to statutory pension funds are charged to the income statement in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments are available.

(iii) Share-based Payment Transactions

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 50 percent equity interest in the Company and is 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.

The grant by British American Tobacco p.l.c. of options over its equity instruments to the employees of the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the income statement, with a corresponding credit to equity.

(iv) Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(o) Revenue and Other Income

(i) Revenue from Contracts with Customers

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to the customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;

(b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Dividend Income

Dividend income is recognised in the income statement on the date that the Group's or the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(o) Revenue and Other Income (continued)

(iii) Interest Income

Interest income is recognised as it accrues using the effective interest method in the income statement except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(iv) Management Fee

Management fee is recognised when services are rendered.

(v) Fee for usage of Property, Plant and Equipment

Fee for usage of property, plant and equipment is recognised when services are rendered.

(p) Borrowing Costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(q) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that they relate to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(q) Income Tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(r) Earnings per Ordinary Share

The Group presents basic earnings per share data for its ordinary shares (“EPS”).

Basic EPS is calculated by dividing the income statement attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(s) Operating Segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. Operating segments results are reviewed regularly by the chief operating decision maker, which in this case Board of Directors of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(t) Contingent Liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the balance sheet and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Fair Value Measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

(v) 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.

(w) Non-current Asset Held for Sale or Distribution to Shareholders

Non-current assets, or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale or distribution to shareholders rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(w) Non-current Asset Held for Sale or Distribution to Shareholders (continued)

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted associates and joint venture ceases once classified as held for sale or distribution.

3. Revenue

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue from contracts with customers:				
Sale of cigarettes, pipe tobaccos, cigars and other tobacco products	**2,315,481**	2,508,554	**-**	-
Other revenue:				
Dividend income from unquoted subsidiaries	**-**	-	**294,146**	314,101
Management fee from subsidiaries	**-**	-	**4,305**	6,807
Fee for usage of property, plant and equipment from subsidiaries	**-**	-	**2,547**	2,585
	2,315,481	2,508,554	**300,998**	323,493

The Group is primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products. Revenue of the Group is recognised at a point in time when it transfers controls of tobacco products to the customers. Payment terms given to customers range from 1 to 60 days from invoice date. Variable elements in consideration are those trade discounts, volume rebates, and trade incentives. The Group allows return only for exchange with new goods (i.e. no cash refunds are offered).

The Group applies the practical expedients exemption on disclosure of information on remaining performance obligations that have original expected durations of one year or less.

NOTES TO THE FINANCIAL STATEMENTS

4. Profit Before Tax

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Profit before tax is arrived at after charging:					
Auditors' remuneration:					
- statutory audit		**538**	538	**382**	382
- non-audit fees		**246**	170	**246**	170
Raw materials and consumables used		**171,356**	182,848	**-**	-
Excise duties		**1,298,818**	1,347,944	**-**	-
Staff costs	6	**75,324**	83,251	**16,489**	16,488
Property, plant and equipment:					
- depreciation	10	**7,519**	7,501	**2,607**	2,730
- depreciation of right-of-use assets	10	**6,269**	6,732	**3,724**	4,165
- loss on disposal		**351**	26	**181**	152
- write-off		**5**	10	**-**	2
Computer software:					
- amortisation	11	**3**	-	**3**	-
- write-off		**1,426**	-	**-**	-
Net loss on impairment of financial assets at amortised cost		**99**	18	**-**	-
Expenses relating to:					
- short-term lease	a	**861**	1,880	**198**	937
- low-value assets		**-**	20	**-**	-
Inventories written-down		**11,341**	11,478	**-**	-
Finance costs:					
- lease liabilities		**892**	1,114	**793**	1,006
- borrowings		**16,280**	14,849	**6,348**	15,264
Net foreign exchange loss		**930**	-	**368**	-
Restructuring expenses	30	**18,825**	15,420	**4,740**	2,330

NOTES TO THE FINANCIAL STATEMENTS

4. Profit Before Tax (continued)

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
and after crediting:					
Gain on derecognition of lease contract		**166**	-	**166**	-
Gain on disposal of assets held for sale		**386**	1,031	**386**	1,031
Net foreign exchange gain		**-**	1,050	**-**	471
Interest income on deposits		**863**	1,163	**489**	794

Note a

The Group and the Company leases buildings with contract terms of less than 1 year. These leases are short-term leases and the Group and the Company have elected not to recognise right-of-use assets and lease liabilities for these leases.

5. Directors' Remuneration

	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Fees	**574**	778	**574**	778
Other emoluments	**8,604**	8,949	**8,604**	8,949
	9,178	9,727	**9,178**	9,727

The estimated monetary value of benefits in kind provided to Directors of the Group and of the Company during the financial year amounted to RM1,325,000 (2019: RM829,000) and RM1,325,000 (2019: RM829,000) respectively.

Included within other emoluments are share-based payments amounting to RM6,000 (2019: RM644,000) which were made to certain Directors of the Group and of the Company (during their employment with the Group and the Company) by way of their participation in employee share schemes offered by British American Tobacco p.l.c. as disclosed in Note 24, and consultancy fees paid to a Director amounting to RM400,000 (2019: RM520,000).

Details of the movements of certain Directors' equity-settled share-based payments arrangements during the financial year ended 2020, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

5. Directors' Remuneration (continued)

	Number of ordinary shares in British American Tobacco p.l.c.				
	At 1.1.2020	Awarded	Vested	Other movements*	At 31.12.2020
Executive Directors					
Deferred Share Bonus Scheme	15,110	3,804	(1,718)	(6,794)	10,402
International Share Reward Scheme	498	250	(134)	-	614
	15,608	4,054	(1,852)	(6,794)	11,016

Details of the movements of the Directors' participation in the equity-settled Long-Term Incentive Plan are as follows, representing costs incurred by the Group and the Company during the tenure of the Directors' service with the Group and the Company.

	Number of options in ordinary shares in British American Tobacco p.l.c.				
Grant price	At 1.1.2020	Granted	Exercised	Other movements*	At 31.12.2020
£22.58	1,024	-	(1,024)	-	-
£23.77	622	-	(622)	-	-
£35.05	96	-	(96)	-	-
£32.58	1,010	-	(1,010)	-	-
£36.25	1,987	-	(3,853)	1,866	-
£42.34	1,360	-	(1,360)	-	-
£52.11	9,882	-	(2,150)	(7,732)	-
£38.94	14,238	-	-	(9,905)	4,333
£30.83	18,502	-	-	(12,875)	5,627
£26.33	-	10,549	-	-	10,549
	48,721	10,549	(10,115)	(28,646)	20,509

* Other movements relate to ordinary shares and options that would have lapsed or movement of Directors during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

6. Staff Costs

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Wages, salaries and bonuses	**42,148**	63,426	**9,260**	11,897
Defined contribution plan	**5,062**	8,409	**672**	827
Other staff related expenses	**28,114**	11,416	**6,557**	3,764
	75,324	83,251	**16,489**	16,488

The Group voluntarily provides additional 4 percent 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 costs is an amount for other emoluments as part of Directors' remuneration disclosed in Note 5 to the financial statements.

Staff costs recharged by the Company to the subsidiaries amounted to RM20,158,000 for the year ended 31 December 2020 (2019: RM15,664,000).

7. Tax Expense

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current tax expense				
- current year	**80,661**	101,989	**139**	248
- under provision in prior year	**1,709**	2,036	**3**	-
	82,370	104,025	**142**	248
Deferred tax expense/(credit)				
- reversal and origination of temporary differences	**5,842**	14,658	**1,489**	3,859
- (over)/under provision in prior year	**(766)**	(2,128)	**75**	(2,059)
	5,076	12,530	**1,564**	1,800
	87,446	116,555	**1,706**	2,048

NOTES TO THE FINANCIAL STATEMENTS

7. Tax Expense (continued)

	Group		Company	
	2020 %	2019 %	2020 %	2019 %
Reconciliation of tax expense				
Statutory tax rate	**24**	24	**24**	24
Expenses not deductible for tax purposes	**3**	2	**2**	1
Income not subject to tax	**-**	(1)	**(25)**	(24)
Average effective tax rate	**27**	25	**1**	1

8. Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and number of ordinary shares outstanding, calculated as follows:

	Group	
	2020	2019
Profit for the year (RM'000)	**241,839**	345,699
Number of ordinary shares at 31 December ('000)	**285,530**	285,530
Basic earnings per ordinary share (sen)	**84.7**	121.1

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

NOTES TO THE FINANCIAL STATEMENTS

9. Dividends

Dividends paid or declared in respect of the financial year are as follows:

	Sen per share	Total amount RM'000
2020		
Fourth interim dividend 2019	**33.0**	**94,225**
First interim dividend 2020	**17.0**	**48,540**
Second interim dividend 2020	**18.0**	**51,395**
Third interim dividend 2020	**21.0**	**59,961**
Total amount	**89.0**	**254,121**
2019		
Fourth interim dividend 2018	47.0	134,199
First interim dividend 2019	30.0	85,659
Second interim dividend 2019	26.0	74,238
Third interim dividend 2019	29.0	82,804
Total amount	132.0	376,900

The first, second and third interim dividends are paid and accounted for in shareholders' equity as an appropriation of retained earnings in the financial year they are declared.

The Directors declared a fourth interim ordinary dividend of 27.0 sen per ordinary share at the Board of Directors' meeting on 10 February 2021 amounting to RM77,093,100 in respect of the financial year ended 31 December 2020 which will be paid on 9 March 2021 to shareholders registered in the Company's Register of Members at the close of business on 26 February 2021. These financial statements do not reflect the fourth interim ordinary dividend which will be accounted for in the financial year ending 31 December 2021.

The Board of Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment

Group	Freehold land RM'000	Leasehold land RM'000	Buildings (owned) RM'000	Buildings (right-of-use assets)* 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
Cost									
At 1 January 2019	105	222	343	30,439	5,823	25,365	34,908	-	97,205
Additions	-	-	-	1,534	-	937	6,444	18	8,933
Disposals	-	-	-	-	-	-	(8,902)	-	(8,902)
Write-off	-	-	-	-	-	(2,277)	-	-	(2,277)
Reclassifications to assets held for sale	(105)	(222)	(343)	-	-	-	-	-	(670)
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**31,973**	**5,823**	**24,025**	**32,450**	**18**	**94,289**
Additions	**-**	**-**	**-**	**5,284**	**-**	**3,009**	**403**	**12**	**8,708**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(4,653)**	**-**	**(4,653)**
Write-off	**-**	**-**	**-**	**-**	**-**	**(674)**	**-**	**-**	**(674)**
Derecognition	**-**	**-**	**-**	**(1,697)**	**-**	**-**	**-**	**-**	**(1,697)**
Remeasurement of right-of-use assets	**-**	**-**	**-**	**(164)**	**-**	**-**	**-**	**-**	**(164)**
At 31 December 2020	**-**	**-**	**-**	**35,396**	**5,823**	**26,360**	**28,200**	**30**	**95,809**

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

Group	Freehold land RM'000	Leasehold land RM'000	Buildings (owned) RM'000	Buildings (right-of-use assets)* 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
Accumulated depreciation									
At 1 January 2019	-	53	343	-	248	9,382	12,709	-	22,735
Charge for the year	-	1	5	6,732	284	3,828	3,383	-	14,233
Disposals	-	-	-	-	-	-	(5,664)	-	(5,664)
Write-off	-	-	(149)	-	-	(2,118)	-	-	(2,267)
Reclassifications to assets held for sale	-	(54)	(199)	-	-	-	-	-	(253)
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**6,732**	**532**	**11,092**	**10,428**	**-**	**28,784**
Charge for the year	**-**	**-**	**-**	**6,269**	**284**	**3,610**	**3,625**	**-**	**13,788**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(2,717)**	**-**	**(2,717)**
Write-off	**-**	**-**	**-**	**-**	**-**	**(669)**	**-**	**-**	**(669)**
Derecognition	**-**	**-**	**-**	**(917)**	**-**	**-**	**-**	**-**	**(917)**
At 31 December 2020	**-**	**-**	**-**	**12,084**	**816**	**14,033**	**11,336**	**-**	**38,269**
Carrying amounts									
At 1 January 2019	105	169	-	-	5,575	15,983	22,199	-	44,031
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**25,241**	**5,291**	**12,933**	**22,022**	**18**	**65,505**
At 31 December 2020	**-**	**-**	**-**	**23,312**	**5,007**	**12,327**	**16,864**	**30**	**57,540**

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

Company	Freehold land RM'000	Leasehold land RM'000	Buildings (owned) RM'000	Buildings (right-of-use assets)* RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost								
At 1 January 2019	105	222	343	26,772	17,502	2,707	-	47,651
Additions	-	-	-	97	449	1,154	-	1,700
Disposals	-	-	-	-	-	(1,171)	-	(1,171)
Write-off	-	-	-	-	(1,042)	-	-	(1,042)
Reclassifications to assets held for sale	(105)	(222)	(343)	-	-	-	-	(670)
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**26,869**	**16,909**	**2,690**	**-**	**46,468**
Additions	**-**	**-**	**-**	**1,012**	**1,406**	**-**	**30**	**2,448**
Disposals	**-**	**-**	**-**	**-**	**-**	**(927)**	**-**	**(927)**
Write-off	**-**	**-**	**-**	**-**	**(183)**	**-**	**-**	**(183)**
Derecognition	**-**	**-**	**-**	**(1,697)**	**-**	**-**	**-**	**(1,697)**
Remeasurement of right-of-use assets	**-**	**-**	**-**	**(164)**	**-**	**-**	**-**	**(164)**
At 31 December 2020	**-**	**-**	**-**	**26,020**	**18,132**	**1,763**	**30**	**45,945**

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

Company	Freehold land RM'000	Leasehold land RM'000	Buildings (owned) RM'000	Buildings (right-of-use assets)* RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Accumulated depreciation								
At 1 January 2019	-	53	343	-	4,875	942	-	6,213
Charge for the year	-	1	5	4,165	2,351	373	-	6,895
Disposals	-	-	-	-	-	(761)	-	(761)
Write-off	-	-	(149)	-	(891)	-	-	(1,040)
Reclassifications to assets held for sale	-	(54)	(199)	-	-	-	-	(253)
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**4,165**	**6,335**	**554**	**-**	**11,054**
Charge for the year	**-**	**-**	**-**	**3,724**	**2,252**	**355**	**-**	**6,331**
Disposals	**-**	**-**	**-**	**-**	**-**	**(410)**	**-**	**(410)**
Write-off	**-**	**-**	**-**	**-**	**(183)**	**-**	**-**	**(183)**
Derecognition	**-**	**-**	**-**	**(917)**	**-**	**-**	**-**	**(917)**
At 31 December 2020	**-**	**-**	**-**	**6,972**	**8,404**	**499**	**-**	**15,875**
Carrying amounts								
At 1 January 2019	105	169	-	-	12,627	1,765	-	14,666
At 31 December 2019/ 1 January 2020	**-**	**-**	**-**	**22,704**	**10,574**	**2,136**	**-**	**35,414**
At 31 December 2020	**-**	**-**	**-**	**19,048**	**9,728**	**1,264**	**30**	**30,070**

* The Group leases office building, warehouse and factory that run for 3 to 5 years, with an option to renew the lease after that date.

Extension options

Some leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

NOTES TO THE FINANCIAL STATEMENTS

10. Property, Plant and Equipment (continued)

Significant judgements and assumptions in relation to leases

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. Group entities consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. Group entities first determine the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

11. Computer Software

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Cost				
At 1 January	**2,000**	2,000	**87**	87
Write-off	**(1,913)**	-	**-**	-
At 31 December	**87**	2,000	**87**	87
Accumulated amortisation				
At 1 January	**571**	571	**84**	84
Charge for the year	**3**	-	**3**	-
Write-off	**(487)**	-	**-**	-
At 31 December	**87**	571	**87**	84
Carrying amounts				
At 31 December	**-**	1,429	**-**	3

NOTES TO THE FINANCIAL STATEMENTS

12. Goodwill

	Group	
	2020 RM'000	**2019 RM'000**
Carrying amount at 31 December	**411,618**	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad, which represents the cash-generating unit, 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 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 unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations.

The key assumptions for the recoverable amount are management's current estimates of net cash flows over a period of ten years plus a terminal value (2019: ten years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 10.2 percent (2019: 13.8 percent).

Based on the assessment, the recoverable amount exceeded the carrying amount of the goodwill. Accordingly, no impairment loss was recognised in 2020 (2019: Nil).

Based on sensitivity tests performed by the Group, any reasonable change in the key assumptions used will not result in any significant change to the results of impairment assessment.

13. Subsidiaries

	Company	
	2020 RM'000	**2019 RM'000**
Cost		
Unquoted shares in subsidiaries	**725,262**	975,262
Impairment losses	**(1,867)**	(1,867)
	723,395	973,395

The impairment loss recognised by the Company in prior years was in respect of its investment cost in Rothmans Brands Sdn. Bhd.

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

NOTES TO THE FINANCIAL STATEMENTS

13. Subsidiaries (continued)

The subsidiaries, all of which are wholly-owned, are as follows:

Name of entity	Principal place of business/ country of incorporation	Principal activities
Commercial Marketers and Distributors Sdn. Bhd.	Malaysia	Marketing and importation of cigarettes, pipe tobaccos, cigars and other tobacco products
Rothmans Brands Sdn. Bhd.	Malaysia	Holding of trademarks
Tobacco Importers and Manufacturers Sdn. Berhad	Malaysia	Manufacture and sale of cigarettes and other tobacco related products
Commercial Marketers and Distributors Sdn. Bhd.*	Negara Brunei Darussalam	Dormant

* Not audited by KPMG PLT.

14. Deferred Tax

		Group		Company	
	Note	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Deferred tax assets					
At 1 January		**19,376**	31,311	**5,335**	7,135
Charged to income statements	14(i)	**(5,076)**	(12,530)	**(1,564)**	(1,800)
Credited to statements of other comprehensive income	14(ii)	**1,155**	595	**-**	-
At 31 December		**15,455**	19,376	**3,771**	5,335
Represented by:					
Property, plant and equipment		**993**	2,196	**408**	372
Tax losses		**1,604**	3,025	**1,604**	3,025
Provisions		**11,221**	13,674	**1,759**	1,938
Cash flow hedge		**1,637**	481	**-**	-
Deferred tax assets (before offsetting)		**15,455**	19,376	**3,771**	5,335
Offsetting		**-**	-	**-**	-
Deferred tax assets (after offsetting)		**15,455**	19,376	**3,771**	5,335

NOTES TO THE FINANCIAL STATEMENTS

14. Deferred Tax (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	**2,597**	5,221	**2,011**	3,397
Deferred tax assets to be recovered within 12 months	**12,858**	14,155	**1,760**	1,938
At 31 December	**15,455**	19,376	**3,771**	5,335
(i) Charged to income statements:				
- Charged in respect of deferred tax assets	**(5,076)**	(12,530)	**(1,564)**	(1,800)
Net charge to income statements	**(5,076)**	(12,530)	**(1,564)**	(1,800)
(ii) Credited to statements of other comprehensive income:				
- Credited in respect of deferred tax assets	**1,155**	595	**-**	-
Net credit to statements of other comprehensive income	**1,155**	595	**-**	-

In accordance with current tax legislation, the unabsorbed tax losses will expire in YA 2025. The balance of unabsorbed tax losses as at 31 December 2020 is RM6,684,000 (2019: RM12,604,000).

NOTES TO THE FINANCIAL STATEMENTS

15. Assets Held for Sale

	Group and Company	
	2020 RM'000	**2019 RM'000**
At 1 January	**234**	116
Transfer from property, plant and equipment	**-**	417
Disposals	**(234)**	(299)
At 31 December	**-**	234

The prior year movements to assets held for sale was mainly attributed to the shop and office of the Group. The sale has been completed in March 2020.

16. Inventories

	Group	
	2020 RM'000	**2019 RM'000**
Raw materials	**671**	140
Finished goods	**229,271**	98,111
	229,942	98,251
Recognised in income statement:		
Inventories recognised as cost of sales	**1,457,755**	1,528,690
Write-down to net realisable value	**11,341**	11,478

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and Other Receivables

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Trade receivables	17.1	**212,535**	227,173	**-**	-
Allowance for impairment	17.1	**(216)**	(117)	**-**	-
Trade receivables, net		**212,319**	227,056	**-**	-
Amounts due from fellow subsidiaries*	17.2	**9,846**	30,039	**4,402**	315
Amounts due from subsidiaries	17.3	**-**	-	**7,054**	33,680
Other receivables, deposits and prepayments	17.4	**174,289**	145,852	**1,633**	1,982
		184,135	175,891	**13,089**	35,977
Total receivables		**396,454**	402,947	**13,089**	35,977

* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

17.1 Trade Receivables

Credit terms of trade receivables range from 1 to 60 days (2019: 1 to 60 days).

17.2 Amounts Due From Fellow Subsidiaries

The Group's and the Company's amounts due from fellow subsidiaries are unsecured and interest free with a credit term of 30 to 60 days (2019: 30 to 60 days).

17.3 Amounts Due From Subsidiaries

The Company's amounts due from subsidiaries are unsecured and interest free with a credit term of 30 days (2019: 30 days).

17.4 Other Receivables, Deposits and Prepayments

Included in other receivables, deposits and prepayments are prepaid excise duties of RM172,054,000 (2019: RM130,933,000).

NOTES TO THE FINANCIAL STATEMENTS

18. Capital and Reserves

Share capital

	Group and Company			
	Number of shares 2020 ’000	Amount 2020 RM’000	Number of shares 2019 ’000	Amount 2019 RM’000
Ordinary shares issued and fully paid with no par value	**285,530**	**142,765**	285,530	142,765

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

Share-based payment reserve

The share-based payment reserve comprises the cumulative value of employee services received for the issue of share options.

19. Trade and Other Payables

		Group		Company	
	Note	2020 RM’000	2019 RM’000	2020 RM’000	2019 RM’000
Trade payables	19.1	**19,539**	8,122	**-**	-
Trade accruals		**60,013**	42,261	**-**	-
Amounts due to subsidiaries	19.2	**-**	-	**260,382**	549,824
Amounts due to fellow subsidiaries*	19.3	**56,028**	51,848	**3,148**	19,326
Other payables and accruals		**63,255**	68,430	**11,682**	11,455
		198,835	170,661	**275,212**	580,605

NOTES TO THE FINANCIAL STATEMENTS

19. Trade and Other Payables (continued)

Other payables and accruals comprise the following:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Accruals for employee expenses	**15,438**	19,504	**3,734**	6,333
Accruals for administrative expenses	**26,884**	40,786	**7,023**	3,796
Provision for restructuring expenses	**17,569**	7,268	**739**	454
Other non-operating creditors	**3,364**	872	**186**	872
	63,255	68,430	**11,682**	11,455

* Fellow subsidiaries through a common ultimate major shareholder, British American Tobacco p.l.c.

Movements of provision for restructuring are as follows:

	Group RM'000	Company RM'000
At 1 January 2019	-	-
Provisions made during the year	15,420	2,330
Provisions used during the year	(8,152)	(1,876)
At 31 December 2019/1 January 2020	**7,268**	**454**
Provisions made during the year	**18,825**	**4,740**
Provisions used during the year	**(8,524)**	**(4,455)**
At 31 December 2020	**17,569**	**739**

19.1 Trade Payables

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from cash term to 120 days (2019: cash term to 120 days).

19.2 Amounts Due to Subsidiaries

The Company's amounts due to subsidiaries are unsecured and subject to 3 percent (2019: 3%) interest per annum with a credit term of 30 days (2019: 30 days). Net changes from financing cash flows amounting to RM289,442,000 (2019: RM2,019,000).

NOTES TO THE FINANCIAL STATEMENTS

19. Trade and Other Payables (continued)

19.3 Amounts Due to Fellow Subsidiaries

The Group's and the Company's amounts due to fellow subsidiaries are repayable within credit terms of 30 to 60 days (2019: 30 to 60 days). These amounts are unsecured and interest free.

20. Borrowings

	Group	
	2020 RM'000	2019 RM'000
Current		
Unsecured		
Revolving credit	**334,000**	271,000
Short-term loan	**176,000**	150,000
	510,000	421,000

The Group's borrowings have a maturity date between one week to one month. The Group's borrowings are denominated in Ringgit Malaysia and the fair value of borrowings is disclosed in Note 26.

Reconciliation of movement of liabilities to cash flow arising from financing activities

		Net changes from financing cash flows		
	2019 RM'000	Drawdown RM'000	Repayment RM'000	2020 RM'000
Group				
Borrowings	421,000	697,500	(608,500)	**510,000**

		Net changes from financing cash flows		
	2018 RM'000	Drawdown RM'000	Repayment RM'000	2019 RM'000
Group				
Borrowings	410,000	1,215,000	(1,204,000)	421,000

NOTES TO THE FINANCIAL STATEMENTS

21. Derivative Financial Instruments

	2020		2019	
	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Group				
Forward foreign exchange contract				
- cash flow hedges	**93**	**7,002**	177	2,171

The fair values of derivative financial instruments are determined based on the quoted market price of similar derivatives, as they are not traded on an active market.

During the year, a gain of RM682,000 (2019: RM214,000) arising from forward foreign exchange contract in relation to cash flow hedges was recognised in the income statement.

The Group's cash flow hedges are principally net exposure in the respective foreign currencies of future payment for finished goods and services, over a period of 6 to 18 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is expected to be comparable to the timing of when the hedged item will affect the income statement, which are expected to occur at various dates over a period of 6 to 18 months (2019: 6 to 18 months).

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. During the year, the Group recognised a loss of RM4,815,000 (2019: loss of RM2,480,000) in the other comprehensive income and a gain of RM1,795,000 (2019: RM750,000) was reclassified from equity to the income statement.

The notional principal amounts of the outstanding forward foreign exchange contracts are as follows:

Hedging Instruments	Currency	RM'000 equivalent	Average contracted rate
Group			
2020			
Currency to be received over the next 12 months USD34,786,000 (net)	**US Dollar**	**147,853**	**1 USD = RM4.2504**
2019			
Currency to be received over the next 12 months USD38,736,000 (net)	US Dollar	161,390	1 USD = RM4.1664

NOTES TO THE FINANCIAL STATEMENTS

22. Lease Liabilities

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Current	**6,307**	4,357	**3,465**	2,579
Non-current	**19,218**	21,844	**17,245**	20,707
Total	**25,525**	26,201	**20,710**	23,286
At 1 January	**26,201**	30,439	**23,286**	26,772
Net changes from financing cash flows	**(4,850)**	(5,772)	**(2,478)**	(3,583)
Acquisition of new lease	**5,284**	1,534	**1,012**	97
Derecognition	**(946)**	-	**(946)**	-
Remeasurement of lease liability	**(164)**	-	**(164)**	-
At 31 December	**25,525**	26,201	**20,710**	23,286

23. Cash from Operations

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit before tax	**329,285**	462,254	**287,168**	307,797
Adjustment for:				
Interest income	**(863)**	(1,163)	**(489)**	(794)
Property, plant and equipment:				
- depreciation	**7,519**	7,501	**2,607**	2,730
- depreciation of right-of-use assets	**6,269**	6,732	**3,724**	4,165
- write-off	**5**	10	**-**	2
- loss on disposal	**351**	26	**181**	152
Gain on derecognition of lease contract	**(166)**	-	**(166)**	-
Computer software:				
- amortisation	**3**	-	**3**	-
- write-off	**1,426**	-	**-**	-

23. Cash from Operations (continued)

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Assets held for sale:				
- gain on disposal	**(386)**	(1,031)	**(386)**	(1,031)
Net foreign exchange loss/(gain)	**930**	(1,050)	**368**	(471)
Net loss on impairment of financial assets at amortised cost	**99**	18	**-**	-
Inventories written down	**11,341**	11,478	**-**	-
Interest expense	**17,172**	15,963	**7,141**	16,270
Changes in working capital:				
- inventories	**(143,032)**	52,553	**-**	-
- trade and other receivables	**7,357**	(41,715)	**22,688**	337
- trade and other payables	**26,381**	(63,815)	**(16,119)**	6,584
	263,691	447,761	**306,720**	335,741

Cash outflows for leases as a lessee

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Included in cash from operations:				
Payment relating to short-term leases	**861**	1,880	**198**	937
Payment relating to leases of low-value assets	**-**	20	**-**	-
Included in net cash flow used in financing activities:				
Payment of lease liabilities	**4,850**	5,772	**2,478**	3,583
Interest paid in relation to lease liabilities	**892**	1,114	**793**	1,006
	6,603	8,786	**3,469**	5,526

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments

The Group operates a number of British American Tobacco p.l.c. share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan (LTIP)

Awards granted in 2020 under the long-term incentive plan are under the Performance Share Plan (PSP) and the Restricted Share Plan (RSP) with the following conditions:

PSP: Nil-cost options released three years from date of grant. Payout is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled PSP awards were granted in March.

RSP: Nil-cost options released three years from date of grant and may be subjected to forfeit if a participant leaves employment before the end of the three years holding period. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled RSP awards were granted in March.

Awards granted in 2018 and 2019 are nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. The performance conditions and the dividend entitlement attached to these awards are identical to the PSP award mentioned above. Both equity and cash-settled LTIP awards were granted in March.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subjected to forfeit if a participant leaves employment before the end of the three years holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,600 in any year) under the equity-settled scheme are subjected to a three years holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

24. Share-based Payments (continued)

Share-based Payment Expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	Note	Equity-settled 2020 RM'000	Equity-settled 2019 RM'000
Group			
LTIP	24.1	**1,240**	2,813
DSBS	24.2	**1,682**	2,925
Other schemes	24.3	**38**	37
Total recognised in the income statement		**2,960**	5,775

	Note	Equity-settled 2020 RM'000	Equity-settled 2019 RM'000
Company			
LTIP	24.1	**1,121**	2,031
DSBS	24.2	**959**	1,661
Other schemes	24.3	**38**	37
Total recognised in the income statement		**2,118**	3,729

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.1 Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	Equity-settled Number of options in thousand	
	2020	**2019**
Group		
Outstanding at start of financial year	**62**	57
Granted during the period	**9**	32
Exercised during the period	**(17)**	(12)
Forfeited during the period	**(24)**	(15)
Outstanding at end of financial year	**30**	62
Exercisable at end of financial year	**1**	3

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £30.66 (2019: £29.76) for equity-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average contractual life of 8.91 years (2019: 8.48 years) for the equity-settled scheme.

	Equity-settled Number of options in thousand	
	2020	**2019**
Company		
Outstanding at start of financial year	**47**	45
Granted during the period	**8**	23
Exercised during the period	**(12)**	(8)
Forfeited during the period	**(17)**	(13)
Outstanding at end of financial year	**26**	47
Exercisable at end of financial year	**1**	-

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.1 Long-Term Incentive Plan (continued)

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £30.29 (2019: £29.98) for equity-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average contractual life of 8.15 years (2019: 8.48 years) for the equity-settled scheme.

24.2 Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	Equity-settled Number of options in thousand	
	2020	**2019**
Group		
Outstanding at start of financial year	**37**	30
Granted during the period	**15**	20
Exercised during the period	**(20)**	(12)
Forfeited during the period	**-**	(1)
Outstanding at end of financial year	**32**	37
Exercisable at end of financial year	**-**	1

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £29.87 (2019: £28.19) for equity-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average contractual life of 1.5 years (2019: 1.84 years) for the equity-settled scheme.

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

24.2 Deferred Share Bonus Scheme (continued)

	Equity-settled Number of options in thousand	
	2020	**2019**
Company		
Outstanding at start of financial year	**20**	14
Granted during the period	**9**	12
Exercised during the period	**(11)**	(5)
Forfeited during the period	**-**	(1)
Outstanding at end of financial year	**18**	20
Exercisable at end of financial year	**-**	-

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £30.06 (2019: £27.07) for equity-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average contractual life of 1.51 years (2019: 1.57 years) for the equity-settled scheme.

24.3 Other Schemes

Share Reward Scheme and International Share Reward Scheme

Group

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 794 (2019: 678).

Company

The number of outstanding shares at the end of the year for the International Share Reward Scheme were 654 (2019: 538).

NOTES TO THE FINANCIAL STATEMENTS

24. Share-based Payments (continued)

Valuation Assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	2020		2019	
	LTIP	DSBS	LTIP	DSBS
Group and Company				
Expected volatility (%)	**25.0**	**25.0**	22.0	22.0
Average expected term to exercise (years)	**3.5**	**3.0**	3.5	3.0
Risk-free rate (%)	**0.2**	**0.2**	0.7	0.7
Expected dividend yield (%)	**7.9**	**7.9**	6.5	6.5
Share price at date of grant (£)	**26.33**	**26.33**	30.83	30.83
Fair value at grant date (£)	**21.23**	**20.76**	21.93	25.35

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2020 %	2019 %
Group and Company		
Average share price volatility FMCG comparator group	**21**	18
Average correlation FMCG comparator group	**31**	28

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 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.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions, they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

NOTES TO THE FINANCIAL STATEMENTS

25. Segment Reporting

The Company is domiciled in Malaysia. The revenue from external customers in Malaysia is RM2,315,481,000 (2019: RM2,508,554,000). The Group does not have any non-current assets that are located in countries other than Malaysia.

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

The following are customers with revenue equal or more than 10 percent of the Group's total revenue:

	2020 RM'000	2019 RM'000
- Customer A	**733,425**	740,329
- Customer B	**594,254**	571,305
- Customer C	**444,398**	462,751
- Customer D	**294,733**	311,796

26. Financial Instruments

26.1 Categories of Financial Instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

(a) Financial assets measured at amortised cost (FAAC); and
(b) Financial liabilities measured at amortised cost (FLAC).

2020	Carrying amount RM'000	FAAC / FLAC RM'000	Derivative used for hedging RM'000
Financial assets			
Group			
Trade and other receivables (excluding prepayments)	**222,421**	**222,421**	**-**
Cash and bank balances	**29,002**	**29,002**	**-**
Derivative financial assets	**93**	**-**	**93**
	251,516	**251,423**	**93**

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.1 Categories of Financial Instruments (continued)

2020	Carrying amount RM'000	FAAC / FLAC RM'000	Derivative used for hedging RM'000
Financial assets			
Company			
Trade and other receivables (excluding prepayments)	11,506	11,506	-
Cash and bank balances	17,185	17,185	-
	28,691	28,691	-
Financial liabilities			
Group			
Borrowings	510,000	510,000	-
Trade and other payables	198,835	198,835	-
Derivative financial liabilities	7,002	-	7,002
	715,837	708,835	7,002
Company			
Trade and other payables	275,212	275,212	-

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.1 Categories of Financial Instruments (continued)

2019	Carrying amount RM'000	FAAC / FLAC RM'000	Derivative used for hedging RM'000
Financial assets			
Group			
Trade and other receivables (excluding prepayments)	270,011	270,011	-
Cash and bank balances	20,386	20,386	-
Derivative financial assets	177	-	177
	290,574	290,397	177
Company			
Trade and other receivables (excluding prepayments)	34,307	34,307	-
Cash and bank balances	12,286	12,286	-
	46,593	46,593	-
Financial liabilities			
Group			
Borrowings	421,000	421,000	-
Trade and other payables	170,661	170,661	-
Derivative financial liabilities	2,171	-	2,171
	593,832	591,661	2,171
Company			
Trade and other payables	580,605	580,605	-

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.2 Net Gains and Losses Arising from Financial Instruments

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Net gains/(losses) on:				
Derivative used for hedging				
- recognised in income statements	**682**	214	**-**	-
- recognised in other comprehensive income	**(4,815)**	(2,480)	**-**	-
Financial assets measured at amortised cost	**1,628**	915	**289**	862
Financial liabilities measured at amortised cost	**(18,074)**	(13,569)	**(6,516)**	(14,861)
	(20,579)	(14,920)	**(6,227)**	(13,999)

26.3 Financial Risk Management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity and cash flow risk
- Market risk

26.4 Credit Risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the individual characteristics of its receivables from customers, amounts due from fellow subsidiaries, short-term deposit and bank balances and outstanding forward exchange contracts. The Company's exposure to credit risk arises principally from amounts due from fellow subsidiaries. There are no significant changes as compared to prior periods.

Trade Receivables

Risk Management Objective, Policies and Processes for Managing The Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount with clear approving authority and limits.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Trade Receivables (continued)

Risk Management Objective, Policies and Processes for Managing The Risk (continued)

Approximately 91 percent (2019: 78 percent) of the Group's trade receivables are derived from its sales to four (2019: four) of its key customers. The Group closely monitors collections from these customers. At each reporting date, the Group and the Company assess whether any of the receivables are credit-impaired.

The gross carrying amounts of credit-impaired trade receivables are written off (either partially or fully) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subjected to enforcement activities. The Group does not foresee any credit risk arising from amounts due from fellow subsidiary companies.

There are no significant changes as compared to previous year.

Exposure to Credit Risk, Credit Quality and Collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the balance sheet.

A significant portion of these receivables are regular customers that have been transacting with the Group.

Short-term advances are only provided to subsidiaries which are wholly-owned by the Company.

Concentration of Credit Risk

The exposure of credit risk for trade receivables, net of allowance for impairment losses, as at the end of the reporting period by geographic region covered Malaysia only.

Recognition and Measurement of Impairment Loss

The Group uses an allowance matrix to measure expected credit losses of trade receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Trade Receivables (continued)

Recognition and Measurement of Impairment Loss (continued)

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2019 and 31 December 2020.

Group	Gross RM'000	Loss allowance RM'000	Net RM'000
2020			
Current (not past due)	**208,771**	**(209)**	**208,562**
Past due 1 – 30 days	**3,501**	**(4)**	**3,497**
Past due 31 – 60 days	**11**	**-**	**11**
Past due 61 – 90 days	**46**	**-**	**46**
Past due more than 90 days	**206**	**(3)**	**203**
	212,535	**(216)**	**212,319**
2019			
Current (not past due)	221,947	(111)	221,836
Past due 1 – 30 days	1,924	(2)	1,922
Past due 31 – 60 days	135	-	135
Past due 61 – 90 days	273	(1)	272
Past due more than 90 days	2,894	(3)	2,891
	227,173	(117)	227,056

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Trade Receivables (continued)

Movements in the Allowance for Impairment in Respect of Trade Receivables

The movements in the allowance for impairment in respect of trade receivables during the year are as follows:

Group	RM'000
Balance at 1 January 2019	99
Net measurement of loss allowance	18
Balance at 31 December 2019/ 1 January 2020	**117**
Net measurement of loss allowance	**99**
Balance at 31 December 2020	**216**

Amounts Due from Fellow Subsidiaries

The ageing of amounts due from fellow subsidiaries as at the end of the financial year ended was:

	2020 RM'000	2019 RM'000
Group		
Not past due	**9,846**	29,864
Past due 0 – 90 days	**-**	175
	9,846	30,039
Company		
Not past due	**4,402**	315

Generally, the Group and Company consider amounts due from fellow subsidiaries as low credit risk. The Group and the Company determines the probability of default for these amounts due from fellow subsidiaries individually using internal information. For the financial year ended 31 December 2020, there was no evidence that the amounts due from fellow subsidiaries are not recoverable.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.4 Credit Risk (continued)

Cash and Bank Balances

The cash and bank balances are held with banks and financial institutions. For the financial year ended 31 December 2020, the maximum exposure to credit risk is represented by the carrying amounts in the balance sheet.

These banks and financial institutions have low credit risks. In addition, all of the bank balances are insured by government agencies. Consequently, the Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

Other Receivables

Expected credit loss of other receivables is determined individually after considering the financial strength of the other receivables. Based on management's assessment, the probability of default of these receivables is low and hence, no loss allowance has been made.

26.5 Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables and borrowings.

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 funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and bank balances 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.

The Group utilises cash pooling and zero balancing bank account structures in addition to borrowings to ensure that there is maximum mobilisation of cash within the Group. The key objective of treasury management in respect of cash and bank balances is to concentrate cash at the centre for better cash management.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.5 Liquidity and Cash Flow Risk (continued)

The table below summarises the maturity profile of the Group's and of the Company's liabilities based on estimated contractual undiscounted repayment obligations.

2020	Carrying amount RM'000	Contractual interest rate/ incremental borrowing rate	Estimated contractual cash flows RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
Group							
Non-derivative financial liabilities							
Borrowings	510,000	2 – 4%	511,126	511,126	-	-	-
Lease liabilities	25,525	3 – 4%	27,479	6,987	5,329	12,844	2,319
Trade and other payables	198,835	-	198,835	198,835	-	-	-
	734,360		737,440	716,948	5,329	12,844	2,319
Derivative financial liabilities							
Derivative financial instruments outflow	7,002	-	7,002	7,002	-	-	-
	741,362		744,442	723,950	5,329	12,844	2,319
Company							
Non-derivative financial liabilities							
Lease liabilities	20,710	3 – 4%	22,471	4,037	4,003	12,112	2,319
Trade and other payables	275,212	-	275,212	275,212	-	-	-
	295,922		297,683	279,249	4,003	12,112	2,319

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.5 Liquidity and Cash Flow Risk (continued)

2019	Carrying amount RM'000	Contractual interest rate/ incremental borrowing rate	Estimated contractual cash flows RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
Group							
Non-derivative financial liabilities							
Borrowings	421,000	3 – 4%	422,290	422,290	-	-	-
Lease liabilities	26,201	4%	29,331	5,280	4,170	13,121	6,760
Trade and other payables	170,661	-	170,661	170,661	-	-	-
	617,862		622,282	598,231	4,170	13,121	6,760
Derivative financial liabilities							
Derivative financial instruments outflow	2,171	-	2,171	2,171	-	-	-
	620,033		624,453	600,402	4,170	13,121	6,760
Company							
Non-derivative financial liabilities							
Lease liabilities	23,286	4%	26,236	3,437	3,897	12,371	6,531
Trade and other payables	580,605	-	580,605	580,605	-	-	-
	603,891		606,841	584,042	3,897	12,371	6,531

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.6 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's and the Company's financial position or cash flows.

26.6.1 Currency Risk

The Group is subject to currency exchange risk as a result of its purchases of finished goods and services in foreign currencies. The currencies giving rise to this risk are US Dollar ("USD"), Great Britain Pound ("GBP") and Euro ("EUR"). The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objective of the Group's foreign exchange policies is 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 hedge up to 95 percent of its exposure on foreign currency payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent eighteen months. The Group's hedging period of eighteen months is in line with the hedging period that was allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia.

Exposure to Foreign Currency Risk

The Group's and the Company's exposure to foreign currency (a currency which is other than the functional currency of the Group) risk, based on carrying amounts as at the end of the reporting period were:

	2020 Denominated in			2019 Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Group						
Trade receivables	**-**	**2**	**-**	-	(12)	-
Trade payables	**(283)**	**(2,273)**	**(16)**	(265)	(59)	260
Cash and bank balances	**2,184**	**600**	**132**	3,233	1,061	124
Amounts due from fellow subsidiaries	**494**	**3,418**	**6**	6,536	20,812	-
Amounts due to fellow subsidiaries	**(8,694)**	**(25,575)**	**(35)**	(10,804)	(14,777)	(68)
Net exposure in the balance sheet	**(6,299)**	**(23,828)**	**87**	(1,300)	7,025	316

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments (continued)

26.6 Market Risk (continued)

26.6.1 Currency Risk (continued)

Exposure to Foreign Currency Risk (continued)

	2020 Denominated in			2019 Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Company						
Trade payables	**-**	**(288)**	**-**	-	(68)	(23)
Cash and bank balances	**22**	**141**	**-**	1,398	652	-
Amounts due from fellow subsidiaries	**386**	**3,418**	**-**	-	-	-
Amounts due to fellow subsidiaries	**-**	**(2,560)**	**-**	-	(15,588)	-
Net exposure in the balance sheet	**408**	**711**	**-**	1,398	(15,004)	(23)

Currency Risk Sensitivity Analysis

A 10 percent (2019: 10 percent) strengthening of RM against the following currencies at the end of the financial year would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remain constant and ignores any impact of forecasted sales and purchases.

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
USD	**630**	130	**(41)**	(140)
GBP	**2,383**	(703)	**(71)**	1,500
EUR	**(9)**	(32)	**-**	2

A 10 percent (2019: 10 percent) weakening of RM against the above currencies at the end of the financial year would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26. Financial Instruments (continued)

26.6 Market Risk (continued)

26.6.2 Interest Rate Risk

Interest rate risk comprises interest price risk that results from borrowings at fixed rates and interest cash flow risk that results from borrowings at variable rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

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. Borrowings issued at floating rates expose the Group to risk of change in cash flows due to change in interest rate risks. The Group has floating rate borrowings as disclosed in Note 20.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period are as follows:

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Fixed rate instruments				
Financial liabilities	**25,525**	26,201	**20,710**	23,286
Floating rate instruments				
Financial liabilities	**510,000**	421,000	**-**	-

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis point ("bp") in interest rates at the end of the reporting period would have increased/ (decreased) equity and pre-tax profit by the amounts shown below:

	2020 Profit or loss		2019 Profit or loss	
Group	100 bp increase RM'000	100 bp increase RM'000	100 bp increase RM'000	100 bp increase RM'000
Floating rate instruments	**(5,100)**	**5,100**	(4,210)	4,210

26. Financial Instruments (continued)

26.7 Fair Value Information

The carrying amounts of cash and bank balances, short-term receivables and payables and borrowings reasonably approximate their fair values due to the relatively short-term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

The Group measures its forward foreign exchange contracts (cash flow hedges) at fair values, as disclosed in Note 21. The fair values of forward foreign exchange contracts are determined based on the quoted market price of similar derivatives, as they are not traded on an active market. These derivatives are classified as Level 2 financial instruments.

The Group measures the fair values of its borrowings based on observable yield curves. The fair value of the Group's financial assets and financial liabilities approximate to their carrying value.

27. Capital Management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio.

The Group defines capital as net debt and equity. Net debt is calculated as total borrowings less cash and bank balances. The debt-to-equity ratios at 31 December 2020 and at 31 December 2019 were as follows:

	Group	
	2020 RM'000	2019 RM'000
Total borrowings (Note 20)	**510,000**	421,000
Less: Cash and bank balances	**(29,002)**	(20,386)
	480,998	400,614
Total equity	**372,639**	388,581
Debt-to-equity ratio	**1.3**	1.0

There was no change in the Group's approach to capital management during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

28. Capital Commitments

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Property, plant and equipment				
Contracted but not provided for	**2**	15	**1**	-

29. Related Parties

Identity of Related Parties

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group. The Directors' remuneration paid is disclosed in Note 5.

The Group has related party relationship with its holding company, subsidiaries and key management personnel.

Significant Related Party Transactions

The Group's and the 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 equity interest in the Company and is the Company's ultimate holding company).

The significant related party transactions of the Group and of the Company are shown below. The balances related to the transactions below are shown in Note 17 and Note 19.

	Group	
	2020 RM'000	2019 RM'000
(i) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
- PT Bentoel Prima	**164,334**	-
- PT Bentoel Internasional Investama, Tbk.	**-**	157,546

NOTES TO THE FINANCIAL STATEMENTS

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Group 2020 RM'000	Group 2019 RM'000
(ii) Procurement of services		
Procurement of information technology services from:		
- British American Shared Services (GSD) Limited	**12,483**	17,946
(iii) Technical and advisory (includes share-based payment charges)		
Payment for technical and advisory support services to:		
- British American Tobacco Investments Ltd.	**17,081**	18,343
- BAT Aspac Service Centre Sdn. Bhd.	**8,196**	18,317
	25,277	36,660
(iv) Royalties		
Royalties paid/payable to:		
- British American Tobacco Western Europe Commercial Trading Limited	**60,173**	-
- British American Tobacco (Holdings) Ltd.	**15,626**	85,116

	Company 2020 RM'000	Company 2019 RM'000
(i) Management fee		
Management fee received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	**4,147**	6,442
- Tobacco Importers and Manufacturers Sdn. Berhad	**158**	365
	4,305	6,807
(ii) Fee for usage of property, plant and equipment		
Fee for usage of property, plant and equipment received from:		
- Commercial Marketers and Distributors Sdn. Bhd.	**2,460**	2,423
- Tobacco Importers and Manufacturers Sdn. Berhad	**87**	162
	2,547	2,585

NOTES TO THE FINANCIAL STATEMENTS

29. Related Parties (continued)

Significant Related Party Transactions (continued)

	Company	
	2020 RM'000	2019 RM'000
(iii) Technical and advisory		
Provision of technical and advisory fees received from:		
- British American Tobacco Sales & Marketing (Singapore) Pte. Ltd.	**1,500**	1,499
(iv) Technical and advisory		
Payment of fees for technical and advisory support services to:		
- BAT Aspac Service Centre Sdn. Bhd.	**4,734**	12,744
(v) Interest expense		
Interest expense on cash pooling:		
- Commercial Marketers and Distributors Sdn. Bhd.	**4,192**	6,679
- Tobacco Importers and Manufacturers Sdn. Berhad	**1,891**	8,511
	6,083	15,190

NOTES TO THE FINANCIAL STATEMENTS

30. Restructuring Expenses

During the fourth quarter of 2019, the Group had undertaken measures in restructuring the organisation to be more efficient, agile and focused to enable the Group to operate in challenging business environment. This restructuring resulted in reduction of workforce and reconstructed a new base for sustainable cost structure. This internal reorganisation exercise that started in fourth quarter of 2019 and had concluded in 2020.

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

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Restructuring expenses	**18,825**	15,420	**4,740**	2,330

31. Covid–19 Disclosure

The coronavirus (Covid-19) pandemic was announced by the World Health Organisation in March 2020 given the outbreak of the virus in countries across the world including Malaysia.

In developing the disclosures, the Group and the Company have performed an assessment of the overall impact of the situation on the Group's and the Company's operations, including the recoverability of the carrying amounts of assets and liabilities and concluded that there is no material adverse effects on the financial statements for the financial year ended 31 December 2020.

STATEMENT
BY DIRECTORS
pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 125 to 203 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2020 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors:

Jonathan Darlow Reed
Managing Director

Ignacio Ballester
Finance Director

Kuala Lumpur

Date: 10 February 2021

STATUTORY
DECLARATION
pursuant to Section 251(1)(b) of the Companies Act 2016

I, Ignacio Ballester, 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 125 to 203 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ignacio Ballester, passport: YB2197558, at Kuala Lumpur in the State of Federal Territory on 10 February 2021.

Ignacio Ballester
Finance Director

Before me:

PESURUHJAYA SUMPAH
No. W 661
TAN KIM CHOOI
1.1.2019-31.12.2021
MALAYSIA

LEVEL 25, MENARA HONG LEONG,
NO 6, JALAN DAMANLELA, BUKIT DAMANSARA
50490 KUALA LUMPUR

INDEPENDENT
AUDITORS' REPORT
TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M)) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of British American Tobacco (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2020 of the Group and of the Company, and the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 125 to 203.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill - Assessment of potential impairment

Refer to Note 2(f)(i) - Significant accounting policy: Intangible Assets - Goodwill and Note 12 - Goodwill.

The key audit matter

The carrying amount of the Group's goodwill as at 31 December 2020 amounts to RM411,618,000.

The Group performs annual impairment assessment of its goodwill with indefinite useful lives by comparing the carrying amount of the goodwill against the discounted cash flow forecasts of the cash generating unit to determine the amount of impairment loss which should be recognised for the year, if any.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M)) (Incorporated in Malaysia)

Key Audit Matters (continued)

We have identified goodwill assessment as a key audit matter for the Group because:

- the carrying amount is significant to the Group's total assets; and
- there is significant judgement involved in the forecasting and discounting of future cash flows, which is the basis of the Group's assessment of the recoverable value of the goodwill.

How the matter was addressed in our audit

Our audit procedures included, amongst others:

- Evaluated Group's cash flow forecasts to the approved business plans by both Board of Directors and management;
- Compared prior year cash flow forecasts to current year actual results to assess the performance of the business and the reliability of prior year's forecast; and
- Tested the assumptions and methodologies used. To do this, we:
    - involved our internal valuation specialists to evaluate and compare the discount rate to similar companies in the market.
    - compared the key assumptions to externally derived data as well as our own assessments of the key inputs such as projected volumes and margins.
    - assessed the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M)) (Incorporated in Malaysia)

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Registration No. 196101000326 (4372-M)) (Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 13 to the financial statements.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Adrian Lee Lye Wang
Approval Number: 02679/11/2021 J
Chartered Accountant

Petaling Jaya

Date: 10 February 2021