



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

PASSION

ANNUAL REPORT 2010





PASSION

Passion is at the heart of our business. This year's annual report places the spotlight on the unwavering passion embedded in the culture of our organisation to strive towards growth and excellence in productivity with an uncompromising sense of responsibility.



50th

**Annual General Meeting (AGM)
of British American Tobacco
(Malaysia) Berhad
will be held at**

**Kristal Ballroom,
Hilton Petaling Jaya,
No. 2, Jalan Barat,
46200 Petaling Jaya,
Selangor Darul Ehsan on**

**Tuesday, 19 April 2011 at
11.00 a.m.**

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OUR VISION

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

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

However, quantitative measures do not in themselves address all the things we must do as a company. We take a long term view, focusing on the quality of our business and how we work. As a result, qualitatively, we seek to be recognised as an industry leader and to be the partner of first choice for our valued stakeholders.

We will do this by continuing to demonstrate that we are a responsible tobacco company, with a sustainable business and outstanding people.

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

RESULTS AT A GLANCE

GROUP FINANCIAL YEAR ENDED 31 DECEMBER 2010

REVENUE

RM MILLION

3,965

PROFIT BEFORE TAX

RM MILLION

959

NET PROFIT

RM MILLION

731

SHAREHOLDERS' FUND

RM MILLION

490

NET RETURNS ON SHAREHOLDERS' FUND

%

149

NET EARNINGS PER SHARE

SEN

256.1

NET INTERIM DIVIDEND PER SHARE

SEN

240.0

Tan Sri Abu Talib bin Othman
Chairman



CHAIRMAN'S REVIEW

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statement of British American Tobacco Malaysia for the financial year ended 31 December 2010.

HIGHLIGHTS

+1.7%

Higher total net dividend payout compared to preceding financial year.

93.7%

Dividend payout ratio over Group's net profit for financial year 2010.

Performance review

The Group recorded an increase in revenue by 1.1% to RM3,965 million for the financial year ended 31 December 2010 due mainly to higher pricing. Profit after tax, however declined by 2.1% to RM731 million mainly due to higher taxes and the high level of illicit cigarettes which has surged to 38.2% of the country's total cigarettes market.

Dividends

The Board of Directors has recommended a third interim dividend of 63 sen per share, thus making the total net dividend payout for the financial year to be 240 sen per share, an increase of 1.7% over 2009.

The total dividend for this financial year 2010 represents a dividend payout ratio of 93.7% of the Group's net profit.

Driving responsible business operations

The Group continued to uphold a high level of corporate governance standard in implementing its strategies and operating its business, ensuring that growth and profitability are not attained at the expense of corporate responsibility.

Our commitment to excellence in our business has received positive recognition. In 2010, I am pleased to report that the Company received numerous awards particularly in areas of corporate governance and corporate social responsibility. This affirms our high standard of business conduct and responsibility.

Prospects for 2011

The industry landscape continues to be more challenging. This is a sign of the rapid growth of exceptionally low priced cigarettes, illicit trade and the sale of some local brands well below minimum price. As such, in order to remain as market leader in an increasingly competitive environment, significant attention is being devoted to continually upgrade our facilities to enhance operating efficiency and cost competitiveness.

I believe that with our forward-looking strategy of continuing to invest in our trusted brands, improving the efficiency and effectiveness of our operations and investing in our people's development and training whilst operating responsibly, we are well placed to meet all challenges ahead. We remain committed to strive to deliver another profitable year.

Key Leadership Changes

Mr. Rashed Ahmed, Marketing Director, has taken on a new role in September 2010 within the British American Tobacco Group.

On behalf of the Group, I would like to thank Mr. Rashed for his contribution and wish him the very best for the future.

I am pleased to welcome Mr. Hendrik Stoel who has assumed the Marketing Director position. Mr. Stoel, originally from the Netherlands, brings with him significant experience from various British American Tobacco markets. I am certain that the Group will benefit from this experience and knowledge. I look forward to working closely with him.

Appreciation

The continued strength and success of the Group would not be possible without the commitment and dedication of its people. On behalf of the Board of Directors, I wish to thank our management team and staff for their dedication and invaluable contribution and am confident that with their passion and sound company policy the Group will continue to grow and ensure good returns to shareholders' funds.

Finally, I would like to thank all our shareholders, customers, distributors, investors and business partners, for their confidence and continued support for the Company. I wish also to thank our Board of Directors for their guidance and support and look forward to another successful year in 2011.



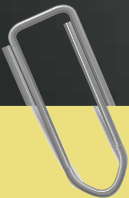
Tan Sri Abu Talib bin Othman
Chairman

MANAGING DIRECTOR'S REVIEW

The tobacco industry had experienced many challenges over the past six years. There were consistently huge excise increases (a 16% increase in 2010) and the progression of many regulatory restrictions. A pack of legal 20 sticks cigarettes in 2004 which cost RM5.40 has almost doubled to RM10.00 today. Today's legal packs are printed with pictorial health warnings and all packs under 20 sticks have been banned.

What has emerged is a formidable competitor in the form of illegal cigarettes trade which does not need to comply with any laws whether health warnings on packs, pack size or pricing. In 2010, after an average of two waves (February to April and June to August) of the Illicit Cigarettes Survey commissioned by the Confederation of Malaysian Tobacco Manufacturers (CMTM), the illicit figures have jumped to 38.2% of the country's total cigarettes market from a full year average of 14.4% in 2004. These illicit cigarettes are sold at approximately RM3.00 per pack of 20 sticks. Illicit cigarettes are smuggled into the country without paying taxes to the government resulting in a loss of tax revenue of approximately RM2.0 billion per annum. As a result of this serious threat, the Group experienced continued decline in volumes and market share.

As a company that seeks to deliver continued long term shareholder value, the slide in volumes and market share must be addressed and with that in mind, we set out on our quest to achieve market share growth within the legal segment.



"British American Tobacco Malaysia performed above expectations in 2010 to register a market share growth of 0.4 percentage points from 59.6% to 60.0%, despite shrinking legal volumes and down trading pressures."



A professional portrait of William Toh Ah Wah, Managing Director. He is a middle-aged man with dark hair and glasses, wearing a dark suit, white shirt, and blue tie. He is seated and holding a large, rolled-up document with a blue and white cover. The background is a dark, textured grey. The lighting is soft, highlighting his face and the document.

William Toh Ah Wah
Managing Director

HIGHLIGHTS

The Group set up three drive teams – Growth, Productivity and Passion to drive and implement the share growth strategy to deliver 60.0% full year market share in 2010.

Share Growth Strategy

British American Tobacco Malaysia embarked on a share growth strategy aimed at delivering 60.0% full year market share in 2010. In order to drive and implement this strategy, three dedicated strategic drive teams were set up – Growth, Productivity and Passion. These drive teams supported the Group's strategic initiatives of driving share growth and volume recovery, enhancing productivity, and building a winning organisation whilst upholding corporate responsibility.

As a result of the success of these strategic initiatives, British American Tobacco Malaysia delivered a commendable performance to record market share growth by 0.4 percentage points from 2009 to 60.0% in 2010, for the first time in ten years. This continued to strengthen our leadership position in the Malaysian tobacco industry.

Passion for sustainable Growth

In 2010, British American Tobacco Malaysia's volumes declined by 2.1% driven primarily by the high levels of illicit cigarettes trade.

However, despite the adverse operating landscape, the Group's portfolio of brands performed commendably to drive market share growth. The successful launch of DUNHILL's resealable Reloc pack in December 2009 saw its full positive impact in 2010 as the brand continued to produce excellent results against a challenging operating landscape to solidify its position as the leading premium brand in Malaysia. DUNHILL Red reported strong and stable performance while DUNHILL Blue and Menthol made significant gains by recording 0.4 percentage point and 0.3 percentage point share growth respectively. The Group will continue to focus on investing its resources in innovations to strengthen its premium segment position further.

Since KENT's re-launch in 2008, its market share has steadily increased to 2.7% with key focus in the premium lights and menthol segments. Together with DUNHILL Blue and Menthol, strong performances from these two premium brands have resulted in solid volume and share growth in these two segments.

PALL MALL remained focused on driving better value, offering choice of quality and affordability. The launch of the new blend for PALL MALL Red and Blue further strengthened and consolidated its position in the Value for Money (VFM) segment.

In addition, a second VFM proposition – PETER STUYVESANT, was launched in June 2010. Since then, the brand has registered 3.3 share points in December 2010, the highest ever share growth recorded by any brand launched within the same year. This new international brand is poised to continue its growth momentum and together with PALL MALL, we took a step closer towards achieving leadership position in the VFM segment.

Our continued focus on achieving excellence in distribution has also seen us progressing the consolidation of our distribution network in identified areas to cover more distribution points. Apart from the physical consolidation of the distribution network, we also achieved alignment of business objectives with our business partners to ensure systematic management of our distribution operations. Furthermore, distribution operational costs were optimised through detailed planning while maximising available resources.

Passion for excellence in Productivity

Our drive towards enhancing productivity led us to continuously seek ways to operate smarter, faster and better throughout our business operations led by the Breakthrough Programme and the Productivity drive team initiatives. Productivity enhancement to us is not about cost reductions but more on improvements in efficiency and effectiveness in execution which we believe will lead to cost effectiveness. This is evident when enhancement in Productivity has seen our Group deliver significant productivity savings of RM51.3 million.

2010 marked the final year of our successful Breakthrough programme as we carry forward these best practices and learning to achieve our vision to be the No. 1 British American Tobacco Supply Chain in quality, delivery and cost effectiveness.

After the company wide launch of our Continuous Improvement (CI) programme in 2009, we are proud to have embedded a positive CI culture mindset in our employees to deliver continuous improvement in all aspects of our business. We saw a total of 1,463 CI initiatives implemented in 2010 with participation from all levels in the organisation.

Passion for driving Responsibility

We firmly believe that we must embed responsibility in everything that we do. Our passion and commitment to responsible behaviour is integral to our sustainability agenda as we continue to ensure that our operations take into consideration key business-related social, environmental and economic impacts.

HIGHLIGHTS

RM51.3 million

Productivity savings delivered in 2010.

1,463

CI initiatives implemented in 2010.

In 2010, the British American Tobacco Malaysia Foundation launched its flagship initiative in alleviating hardcore poverty in Malaysia by collaborating with the Government to build 15 homes for the hardcore poor in Gua Musang, Kelantan at RM495,000. We will continue to explore further similar opportunities in other parts of the country to assist in alleviating hardcore poverty.

The Foundation also continued to provide higher education opportunities to our valued business partners and employees by awarding a total of RM395,000 to deserving students to pursue higher education in local universities. We are also proud to share our employees' passion and enthusiasm in the Employee Volunteer Programme (EVP) that has seen increased participation rate for all our EVP initiatives in 2010.

The year also saw the Group's efforts in continuing to operate its business responsibly by practising and adhering to international quality, environmental, occupational health and safety management systems and best practices. Testament to the high standards of our practices is the continued certification of international standards (ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007) by external auditors, Lloyds' Register Quality Assurance. The Group also continued to engage with its stakeholders on relevant issues within the marketplace and our workplace.

Passion for building a Winning organisation

Our focus in 2010 was to ensure that we have the right people and the right working culture and environment for our employees to achieve our business objectives and their career potential. We believe it is essential for our employees to be continuously developed in all aspects and provided with a workplace culture that allows them to deliver their work effectively and develop their full potential in order to build a sustainable talent pipeline.

Attracting, developing and retaining talent also continue to remain central to our ambition to build a sustainable high performing organisation. We have invested in our talent development through numerous international and domestic recruitment initiatives as well as in-house, external and international training programmes this year.

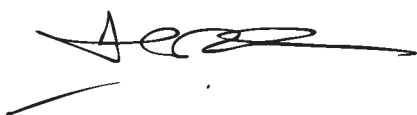
We also believe in getting feedback from our employees and this was forthcoming when our Your Voice 2010, a biennial employee survey obtained a 98% participation rate from employees. The results from this survey have provided us with insights of where we have done well and where we could or need to further improve. We will roll out several initiatives in 2011 arising from the feedback. Over and above the employee survey, the Passion drive team has also introduced a direct feedback mechanism that allowed for continuous open and transparent feedback from employees on the business, career and also the working environment.

Continuing the momentum into 2011

With robust strategies and the passion from employees to drive the business forward despite a dynamic and challenging business environment, the Group is well positioned to enter 2011 as an industry market leader and to continue to enhance long-term shareholder value.

Our performance was achieved with continued passion, dedication and commitment from all our employees and I would like to take this opportunity to express my most sincere appreciation for their untiring efforts and passion to win.

There is no doubt that 2011 will continue to be a tough year for the industry as illicit cigarettes trade remains the biggest challenge. However, I am confident that the Group's strategic imperatives of Growth, Productivity, Responsibility and Winning Organisation driven by the organisation's passion and commitment, will continue to position us well to strengthen our leadership in the industry and brave through any challenges that the industry may face.



William Toh Ah Wah
Managing Director

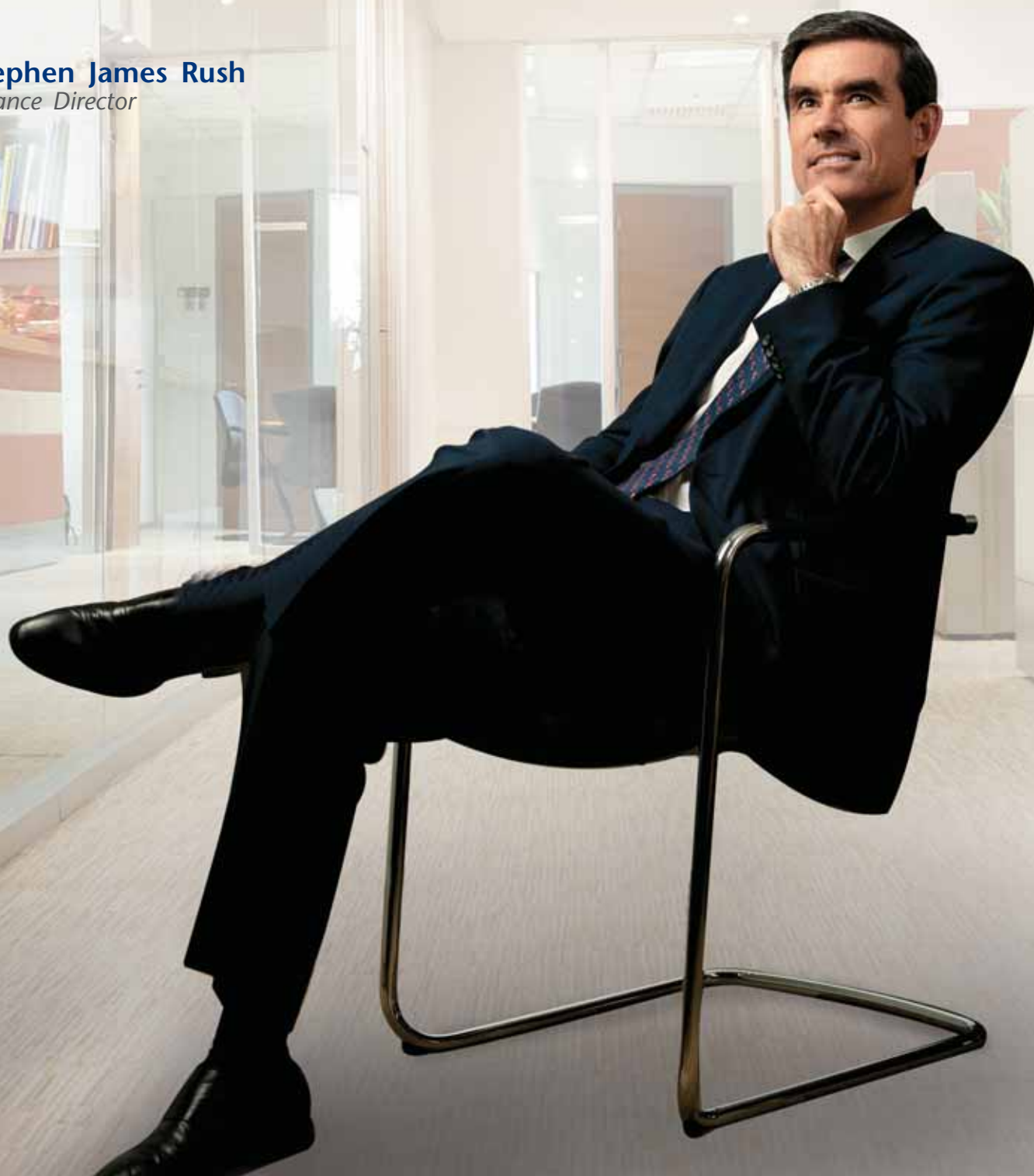
HIGHLIGHTS

98%

*Participation rate from employees
achieved for Your Voice 2010
employee survey.*

FINANCE DIRECTOR'S REVIEW

Stephen James Rush
Finance Director





"It was a strong year for British American Tobacco Malaysia as we delivered a solid financial performance despite an adverse operating landscape for the tobacco industry."

The year 2010 was one of achievements for British American Tobacco Malaysia. As mentioned by the Managing Director, the Group grew its share of the legal market to 60.0%, a 0.4 percentage point increase from 2009, for the first time in ten years. This is particularly commendable given that our portfolio is disproportionately skewed to premium and heavily skewed to packs of 14 sticks. Furthermore, we achieved this growth in a year that saw the Government ban cigarette pack sizes of less than 20 sticks in June 2010 and raise excise by over 15% in October 2010, which further fuelled down trading pressure. Key to this achievement was our new DUNHILL resealable Reloc pack and the successful launch of our new Value for Money offering, PETER STUYVESANT.

On an industry front, ASEAN Free Trade Area (AFTA) came into effect on 1 January 2010, reducing duty rates on imported leaf and wrapping materials, and increasing sourcing flexibility by opening the market to import from our ASEAN neighbours. Another high excise driven price increase pushed the retail price for a pack of 20 sticks premium cigarettes into double digit territory at RM10.00, which is likely to further fuel the growth of illicit trade which is now standing at 38.2% of total cigarette sales – an all time high in Malaysia. According to the Global Tobacco Report published by Goldman Sachs, the country is at the top of the global illicit cigarettes trade incidence list. This is a major challenge for both the legal industry as its volumes will be impacted, and the Government, which loses approximately RM2.0 billion in revenues each year. As a result of this, British American Tobacco Malaysia volumes and profit after tax both declined by 2.1%.

Internally, British American Tobacco Malaysia continues to fortify its position in the industry by generating savings in excess of RM50 million in 2010.

HIGHLIGHTS

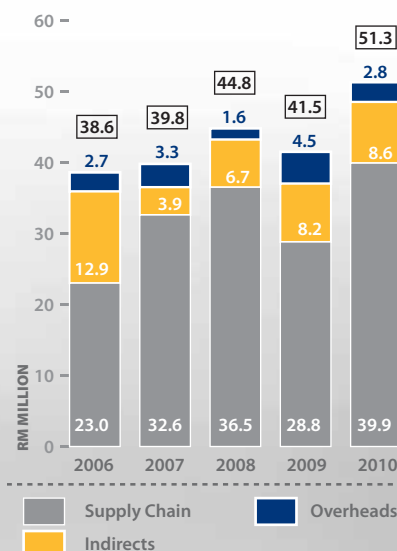
60.0%

Market share in 2010, growing 0.4 percentage point from 2009, for the first time in ten years.

RM51.3 million

in savings generated by British American Tobacco Malaysia in 2010.

Productivity Savings from 2006 to 2010



Consolidated Income Statement

	12 months 2010 RM million	12 months 2009 RM million	Increase/ (Decrease) %
Revenue	3,965	3,923	1.1
Cost of sales	(2,476)	(2,379)	4.1
Gross profit	1,489	1,544	(3.6)
Other operating income	28	6	366.7
Operation expenses	(530)	(517)	2.5
Profit from operations	987	1,033	(4.5)
Finance cost	(28)	(28)	—
Profit from ordinary activities before taxation	959	1,005	(4.6)
Taxation	(228)	(259)	(12.0)
Net profit for the financial year	731	747	(2.1)
Net earnings per share – basic and diluted (sen)	256.1	261.5	(2.1)
Net interim and final dividend per share (sen)	240.0	236.0	1.7
	%	%	pp
Operating profit margin	24.9	26.3	(1.4)

Financial performance in 2010

Higher excise and pricing in the year drove revenue to increase by 1.1%. However, lower volumes and unfavourable pack size mix due to the withdrawal of packs of 14 sticks caused net turnover (revenue less government levies) to decline by 4.1%. The Group took measures to improve margins and reviewed its leaf and materials sourcing strategy by leveraging on ASEAN-sourced products, resulting in duty savings following the implementation of AFTA. This helped to fund the higher packaging cost incurred for DUNHILL resealable Reloc which was launched in December 2009. Consequently, our gross profit decreased by 3.6%, less than the decrease in net turnover.

The 2.5% increase in operating expenses for the year was mainly to fund additional marketing activities for the withdrawal of packs of 14 sticks and the launch of PETER STUYVESANT. We see this as an investment for the future as a stronger portfolio will help defend and grow our market leadership. The higher operating expenses were compensated by gains from the sale of fixed assets as well as an increase in interest income attributable to better interest rates on a higher cash balance, resulting in a 4.5% decline in profit from operations, in line with gross profit trend.

The Group's effective tax rate in 2010 was 23.7%, lower than the statutory tax rate of 25.0% due to lower tax expense for year of assessment 2009, which offset the non-deductibility of interest expense. As a result, profit after tax and earnings per share reduced by 2.1%.

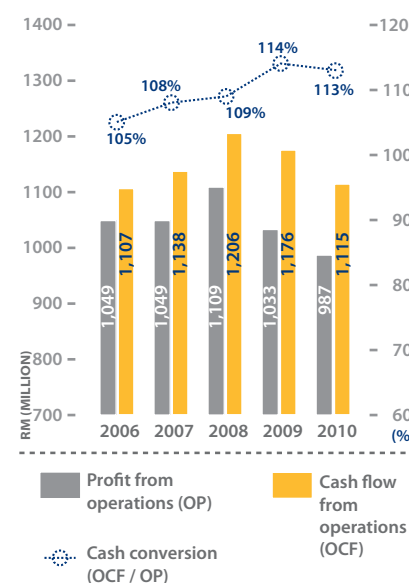
Consolidated Cash Flow Statement

	12 months 2010 RM million	12 months 2009 RM million	Favourable/ (Adverse) %
Profit from operations	987	1,033	(4.5)
Adjustments for:			
Interest income	(9)	(5)	80.0
Defined benefit plan	1	1	—
Provision for litigation	2	6	(66.7)
Property, plant and equipment, prepaid lease & software:			
– Depreciation and amortisation	63	81	(22.2)
– (Gain)/Loss on disposal	(30)	1	(3,100.0)
– Impairment	6	28	(78.6)
(Writeback)/Allowance for doubtful debts	—	3	(100.0)
Bad debts written off	—	3	(100.0)
Inventories (written back)/written off	—	3	(100.0)
Changes in working capital	95	22	331.8
	128	143	(10.5)
Cash from operations	1,115	1,176	(5.2)
Income taxes paid	(239)	(251)	4.8
Net capital expenditure	13	(79)	116.5
Net repayment of medium-term notes	—	—	—
Net finance costs	(19)	(23)	17.4
Dividends paid	(682)	(714)	4.5
Increase/(Decrease) in cash and cash equivalents	188	109	72.5

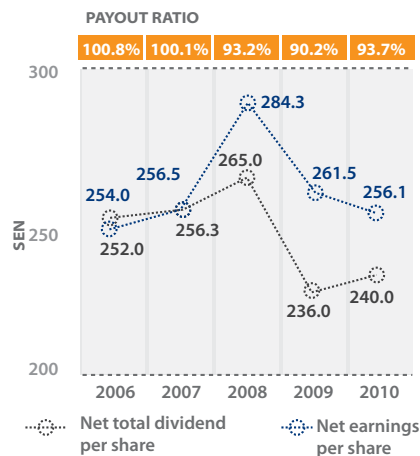
Strong operating cash flow and cash conversion

The Group's cash flow from operations remained in excess of RM1.1 billion, representing 113.0% of profit from operations. This was mainly due to strong working capital management. However, operating cash flow was impacted by the decline in profits and volumes, registering a 5.2% reduction from 2009. We strengthened our cash position this year from the sale of idle assets, which included our leaf threshing plant in Shah Alam, property in Keningau, and a number of machines. These were more than sufficient to fund our capital expenditure requirements this year, leading to a RM13 million net capital receipt. After funding tax and dividend payments, our cash and cash equivalents increased to close at a strong RM357 million.

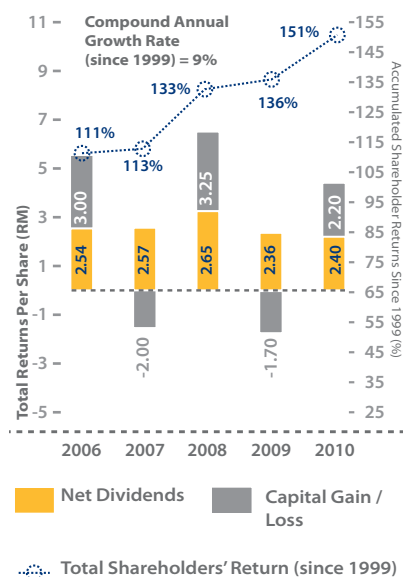
Cash Flow Management from 2006 to 2010



Earnings & Dividends Per Share



Total Shareholders' Return



Commitment to high dividend payout

Over the years, the Group has demonstrated strong commitment to pay dividends of at least 90% of net profit. In 2010, we further our efforts to return excess cash by accelerating dividend payments to shareholders via a new third interim net dividend, to be paid out in March 2011, instead of a final dividend payment in May as in previous years.

The Board of Directors is pleased to announce a total net dividend payout of 240 sen per share for 2010, which consists of:

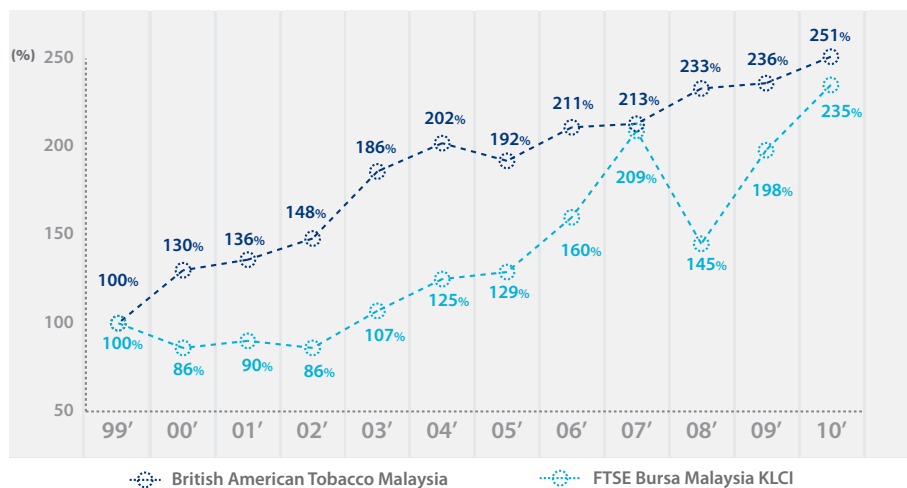
- A new third interim net dividend of 63 sen per share;
- Second interim net dividend of 64 sen per share; and
- First interim net dividend of 113 sen per share

This represents 93.7% of the Group's profit attributable to shareholders, in line with our commitment to high dividend payout.

Share price at all time high

British American Tobacco Malaysia is renowned for its consistently high share price and high dividend payout. In 2010, our share price recorded an all time high of over RM49.00, resonating the market's faith in the Group's earnings and management capabilities. Our shareholders made an impressive gain of RM4.60 per share for the year (total annual return of 10.7%), which was made up of the total dividends paid and proposed for the year, as well as a 5.1% increase in share price. Since the merger in 1999, shareholders have made a consistently high return of 9% per annum on a compounded basis.

British American Tobacco Malaysia Total Shareholders' Return Compared Against FTSE Bursa Malaysia Kuala Lumpur Composite Index from 1999 to 2010



For the past decade, British American Tobacco Malaysia has proven to be a better long term investment over the FTSE Bursa Malaysia Kuala Lumpur Composite Index, delivering consistently high shareholder return. Today, the Group has the highest priced shares on FTSE Bursa Malaysia's Main Board with a market capitalisation of over RM13 billion, and we endeavour to continue fulfilling our promise of delivering long term sustainable shareholder value.

HIGHLIGHTS

The Group has the highest priced shares on FTSE Bursa Malaysia's Main Board with a market capitalisation of over

RM13 billion

Efficient capital structure

The Treasury function is mainly responsible for managing financial risks through proactive management of cash flow, interest rates and currency exposures as well as ensuring efficient treasury operations. The Group undertook some changes to streamline treasury processes and operations in achieving more efficient workflows. In addition, we continuously monitor our capital structure and financing strategy in light of changing economic conditions to maximise shareholders' value. The Group is confident that it will be able to meet the repayment of its RM400 million medium-term notes due in 2012.

In June 2010, Rating Agency Malaysia has once again reaffirmed the Group's P1 and AAA rating for the existing commercial papers/medium-term notes. This is a continued testament of the Group's consistent corporate performance, excellent cash generation capacity and efficient cash flow management.

Firm commitment to enhancing long term shareholder value

There is no doubt 2011 will continue to serve the tobacco industry with more challenges and complexities. The Group's main challenge will be to drive sustainable growth amidst rising levels of illicit trade, down trading pressures and a shrinking legal market size.

Moving forward, our focus will remain on Growth, funded by Productivity, enabled by our people (Winning Organisation) while never compromising on our corporate responsibility. Armed with this strategy, we are committed to continue delivering long term shareholder value. These strategic pillars have proven to solidify our market leadership in the Malaysian tobacco industry and we expect to be able to face future challenges, to deliver and enhance long term shareholder value.



Stephen James Rush
Finance Director

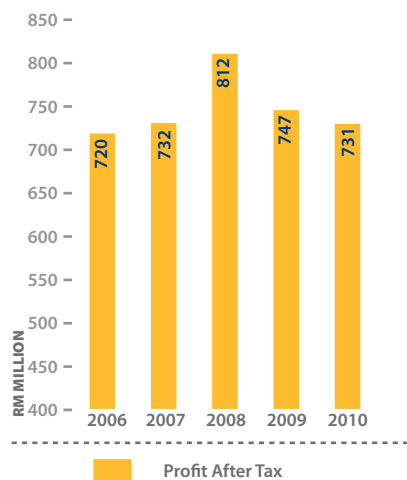
FIVE YEAR FINANCIAL HIGHLIGHTS

	Financial year from 1.1.10 to 31.12.10 RM'million	Financial year from 1.1.09 to 31.12.09 RM'million (as restated)*	Financial year from 1.1.08 to 31.12.08 RM'million (as restated)*	Financial year from 1.1.07 to 31.12.07 RM'million (as restated)*	Financial year from 1.1.06 to 31.12.06 RM'million (as restated)*
Revenue	3,965,448	3,923,421	4,135,220	3,830,869	3,612,482
Profit from operations	986,581	1,033,135	1,109,297	1,049,416	1,049,414
Finance cost	(27,400)	(27,823)	(28,131)	(46,515)	(47,467)
Profit before taxation	959,181	1,005,312	1,081,166	1,002,901	1,001,947
Net profit for the financial year	731,111	746,784	811,683	731,931	719,678
Net annual dividends	685,272	673,851	756,655	732,384	662,715
Net special dividends	—	—	—	—	62,531
Share capital	142,765	142,765	142,765	142,765	142,765
Shareholders' funds	490,426	439,285	406,479	346,587	552,752
Property, plant and equipment	405,826	451,069	459,079	460,785	501,288
Investment property	1,636	1,654	—	—	20,010
Computer software	4,336	6,550	15,232	21,091	14,100
Goodwill	411,618	411,618	411,618	411,618	411,618
Deferred tax assets	15,158	19,295	4,978	4,978	4,020
Current assets	730,572	551,944	596,405	548,536	669,175
Total assets	1,569,146	1,442,130	1,487,312	1,447,008	1,620,211
Non current liabilities	695,922	702,795	448,584	712,892	309,762
Current liabilities	382,798	300,050	632,249	387,529	757,697
Total liabilities	1,078,720	1,002,845	1,080,833	1,100,421	1,067,459
Net earnings per share (sen)	256.1	261.5	284.3	256.3	252.0
Net dividends per share (sen)	240.0	236.0	265.0	256.5	254.0
Net returns on shareholders' funds (%)	149.1	170.0	199.7	211.2	130.2
Net asset backing per share (RM)	1.72	1.54	1.42	1.21	1.94
Number of employees	1,540	1,656	1,454	1,326	1,044

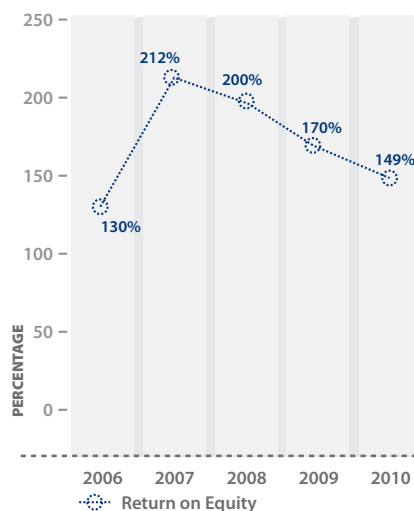
* The restatement reflects the reclassification of existing leasehold land to property, plant and equipment following the adoption of FRS 117 Leases beginning 1 January 2010.

FIVE YEAR GROUP PERFORMANCE

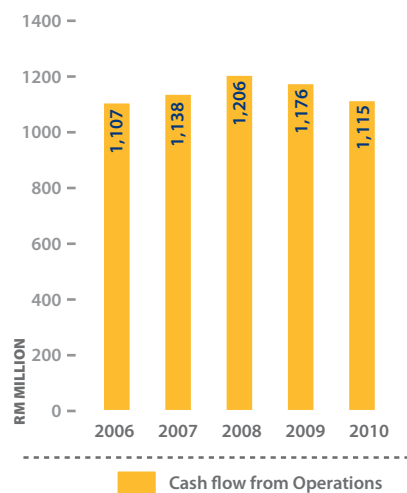
Solid financial performance



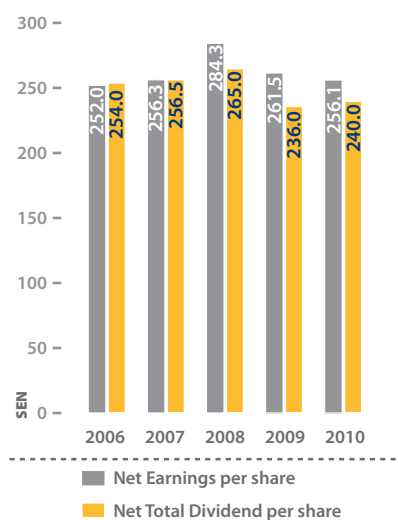
Delivering high shareholder return



Superior cash flow from operations



Generous dividend contribution



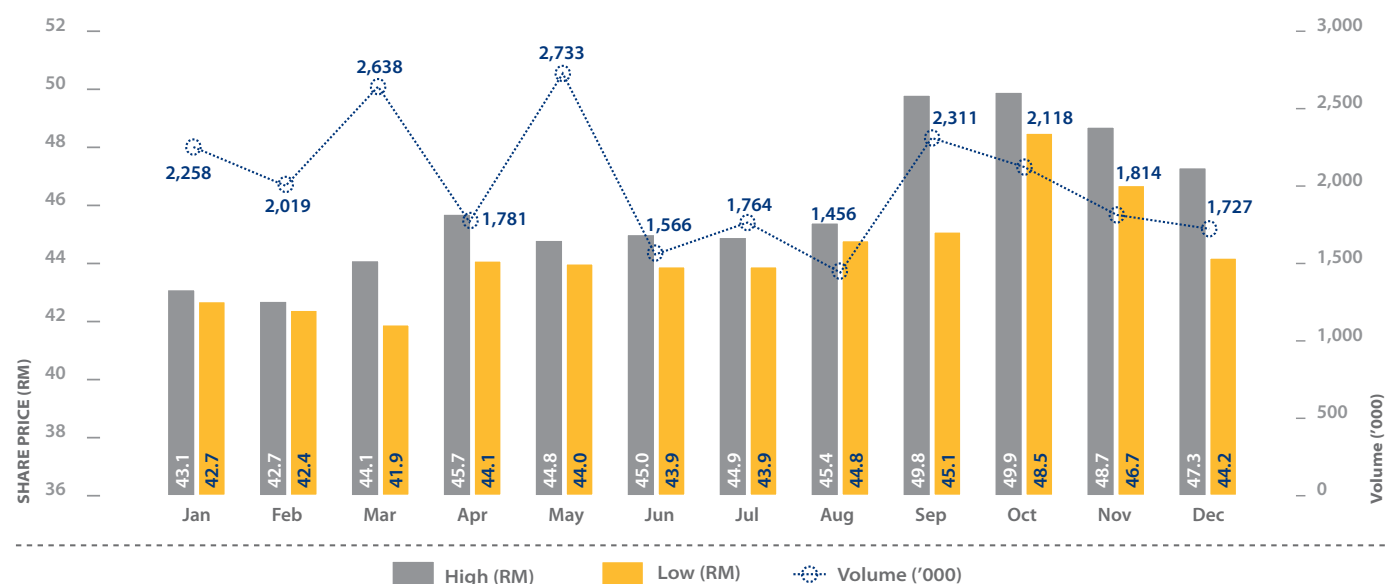
British American Tobacco Malaysia continued its growth momentum and charted another year of strong financial performance, reaffirming its unwavering commitment to maximise and deliver long term shareholder value.

SHARE PERFORMANCE AND FINANCIAL CALENDAR

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
High (RM)	43.1	42.7	44.1	45.7	44.8	45.0	44.9	45.4	49.8	49.9	48.7	47.3
Low (RM)	42.7	42.4	41.9	44.1	44.0	43.9	43.9	44.8	45.1	48.5	46.7	44.2
Volume ('000)	2,257.7	2,019.3	2,638.0	1,780.7	2,733.2	1,566.3	1,763.6	1,455.8	2,311.2	2,117.6	1,814.3	1,727.3

Source: Bloomberg

Share Performance 2010



Announcement of Results

Unaudited consolidated results for the 1st quarter ended 31 March 2010

Thursday, 22 April 2010

Unaudited consolidated results for the 2nd quarter and halfyear ended 30 June 2010

Thursday, 22 July 2010

Unaudited consolidated results for the 3rd quarter ended 30 September 2010

Wednesday, 20 October 2010

Dividends

First interim dividend of 113 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement Friday, 23 July 2010
- Date of entitlement Thursday, 12 August 2010
- Date of payment Friday, 20 August 2010

Second interim dividend of 64 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement Thursday, 21 October 2010
- Date of entitlement Wednesday, 10 November 2010
- Date of payment Friday, 19 November 2010

Third interim dividend of 63 sen per share, tax exempt under the single-tier system

- Date of notice of entitlement Wednesday, 23 February 2011
- Date of entitlement Thursday, 10 March 2011
- Date of payment Wednesday, 23 March 2011

QUARTERLY PERFORMANCE

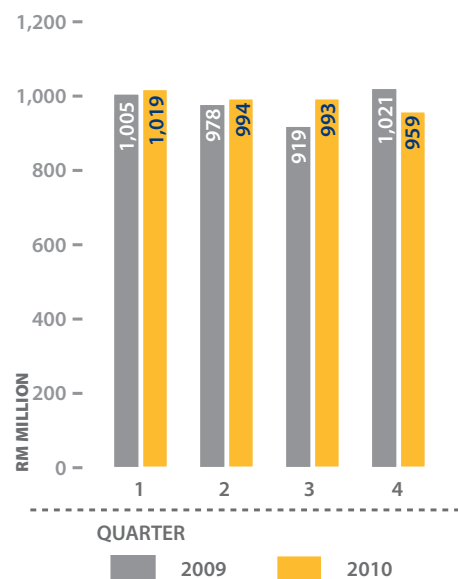
2010

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	(RM million)	1,019	994	993	959	3,965
Profit from operations	(RM million)	265	257	230	235	987
Finance cost	(RM million)	(7)	(7)	(7)	(7)	(28)
Profit before tax	(RM million)	258	250	223	228	959
Profit after tax	(RM million)	192	186	170	183	731
Earnings per share	(sen)	67.2	65.1	59.8	64.0	256.1
Net dividends per share	(sen)	—	113.0	64.0	63.0	240.0

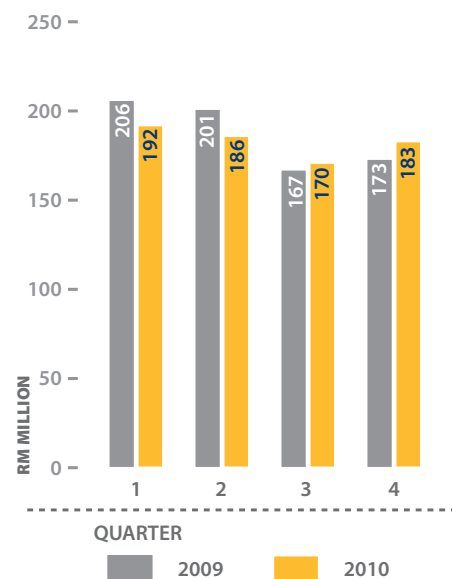
2009

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenue	(RM million)	1,005	978	919	1,021	3,923
Profit from operations	(RM million)	279	277	242	235	1,033
Finance cost	(RM million)	(7)	(7)	(7)	(7)	(28)
Profit before tax	(RM million)	272	270	235	228	1,005
Profit after tax	(RM million)	206	201	167	173	747
Earnings per share	(sen)	72.1	70.5	58.4	60.5	261.5
Net dividends per share	(sen)	—	113.0	61.0	62.0	236.0

Quarterly Revenue



Quarterly Net Profit



CORPORATE PROFILE

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

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

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

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

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

BRITISH AMERICAN TOBACCO MALAYSIA IN THE NEWS





AWARDS AND ACHIEVEMENTS

In British American Tobacco Malaysia, our passion for excellence extends throughout all aspects of our conduct to achieve business objectives in a responsible manner. This year, we continue to receive local and international recognition for our unwavering commitment to excellence, setting the benchmark for high corporate governance standards, exemplary shareholder value and strong dividend payment.

Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2010 Awards

Recognition for the Company's achievement in practising the highest level of corporate governance standards in the consumer products sector by Minority Shareholders Watchdog Group.

Distinction Award for Malaysian Corporate Governance Index 2010 Awards

Recognition for the Company's overall commitment in practising the highest level of corporate governance standards by Minority Shareholders Watchdog Group.

Highest Return on Equity in the Consumer Products Sector for The Edge Billion Ringgit Club Corporate Awards 2010

Recognition for the Company achieving the highest return on equity in consumer products sector as evaluated by The Edge.

Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2010

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

Silver Award in the Best Designed Annual Report Category for National Annual Corporate Report Awards (NACRA) 2010

Recognition for the Company's excellence in presentation and readability of the annual report to various audiences.



Top 20 Companies in Asia for Asian Sustainability Rating

Ranked 17th Best Company in Asia for general management, environment, as well as the social and governance categories amongst 542 companies across ten countries surveyed in Asia. We are also one of four Malaysian companies included in the ratings.

Overall Winner Award for KPMG/The Edge Shareholder Value Awards 2010

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

Consumer Markets Category for KPMG/The Edge Shareholder Value Awards 2010

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

High recognition for 2009 FinanceAsia Awards Poll

Recognition for the tenth consecutive year of the Company's landmark achievements in overall management, corporate governance, corporate social responsibility, investor relations practices and commitment to strong dividend payment. Our recognition includes:

- Second place for Most Committed to a Strong Dividend Policy
- Third place for Best Corporate Governance
- Third place for Best Corporate Social Responsibility
- Fourth place for Best Investor Relations
- Fourth place for Best Managed Company

Gold Award for Environmental Responsibility and Investor Relations in The Asset Corporate Awards 2010

Recognition for the Company's commitment to environmental responsibility in its operations as well as commitment to good investor relations.

2010

corporate events

2010 was a year full of activities and initiatives held across the Company. Provided below is a snapshot of some of the activities and initiatives that took place throughout the year.

JANUARY



- Achieved a milestone of 2,020 Continuous Improvement Kaizen ideas.
- Installed DUNHILL's resealable Reloc machines for commercial production.

1

FEBRUARY



- Launched Pall Mall Call Centre.
- Organised Employee Volunteer Programme with orphans from House of Joy.
- Conducted financial analyst briefing on Fourth Quarter 2009 financial results.

2

MARCH



- Collaborated with Lembaga Kemajuan Kelantan Selatan to build homes for the hardcore poor at Gua Musang, Kelantan.
- Organised Employee Volunteer Programme with the elderly folk from Joy Garden.
- Pledged against global warming – Earth Hour 2010.
- Published British American Tobacco Malaysia Annual Report 2009.

3

APRIL

- Organised biodiversity programme for employee volunteers at Cameron Highlands. **4**
- Conducted financial analyst briefing on First Quarter 2010 financial results.
- Held 49th Annual General Meeting.



MAY

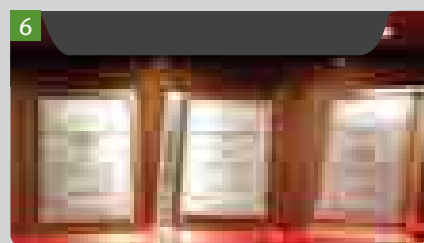
- Held Family Day at A Famosa Resort. **7**
- Contributed towards the Haiti Earthquake Relief Fund.
- Obtained British American Tobacco EHS Merit Award for Zero Accident.



JUNE



- Appointed Hendrik Stoel as Marketing Director of British American Tobacco Malaysia.
- Launched PETER STUYVESANT. **5**
- Obtained recertification for ISO 9001, ISO 14001 and OHSAS 18001. **6**
- Achieved highest daily production output of DUNHILL resealable Reloc pack in the British American Tobacco world.
- Rolled out Company-wide Your Voice employee feedback survey.



JULY



- Established Regional Technical Training Centre.
- Awarded the Higher Education Starter Kit to tobacco farming community. **9**
- Recognised by The Edge Billion Ringgit Club for achieving highest return on equity in consumer products sector.
- Reduced paper usage by 1.56 million sheets through Paper Conservation Project.

- Conducted financial analyst briefing on Second Quarter 2010 financial results.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

AUGUST

- Launched new hijack surveillance and counter measures in sales vans. ¹⁰
- Contributed towards Pakistan Flood Relief Fund.



SEPTEMBER



- Organised Employee Volunteer Programme with orphans of Rumah Amal Kasih Bestari. ¹¹
- Visited Trinity Children's Home to donate books, games and furniture.

OCTOBER

- Ranked top 20 in Asia for sustainability disclosure by CSR Asia.
- Awarded the Overall Winner Award by KPMG/The Edge. ¹²
- Conducted financial analyst briefing on Third Quarter 2010 financial results.



"The simple act of volunteering one's time to make a difference in the lives of the less fortunate brings with it a reward that is both fulfilling and meaningful."

Paul Choo, CSR Executive

NOVEMBER



- Organised Employee Volunteer Programme with orphans from Rumah Kanak-kanak Tara Bhavan. [13](#)

- Honoured long serving employees at the Employee Long Service Awards. [14](#)

- Awarded scholarships to deserving scholars pursuing higher education. [15](#)

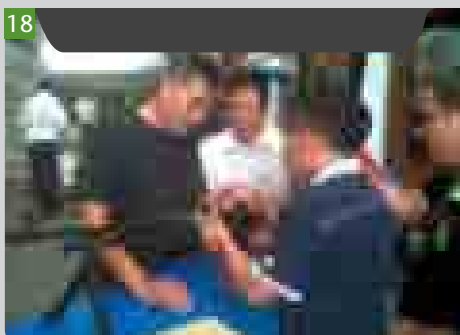
- Held Company Annual Dinner. [16](#)



DECEMBER

- Organised exhibition on bomb threats, narcotics and traffic offences to increase awareness of security issues. [17](#) [18](#)

- Awarded Distinction and Industry Excellence awards by Minority Shareholders Watchdog Group.





LEADERSHIP

PASSION BEGINS AT THE TOP. WE BELIEVE THAT THE
SUCCESS OF OUR ORGANISATION STARTS WITH STRATEGIC
AND PASSIONATE LEADERSHIP.

CORPORATE INFORMATION

Board of Directors

Tan Sri Abu Talib bin Othman

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

Independent Non-Executive Director
(Chairman)

William Toh Ah Wah

Non-Independent Executive Director

Datuk Oh Chong Peng

PJN, JSM

Independent Non-Executive Director

James Richard Suttie

Non-Independent Non-Executive Director

Stephen James Rush

Non-Independent Executive Director

Dato' Chan Choon Ngai

DSNS

Non-Independent Executive Director
(appointed on 1 February 2011)

Dato' Ahmad Johari bin Tun Abdul Razak

DPCM, DSIS, DSAP

Independent Non-Executive Director

Secretary

Chan Mei Mae (LS0009460)

Tel : +60 (3)7491 7326

Fax : +60 (3)7491 3772

E-mail: Claire_Chan_Mei_Mae@bat.com

Registered Office

Virginia Park, Jalan Universiti

46200 Petaling Jaya

Selangor Darul Ehsan

Tel : +60 (3)7956 6899

Fax : +60 (3)7955 8416

E-mail: bat_malaysia@bat.com

Company Website

www.batmalaysia.com

Share Registrar

Tricor Investor Services Sdn. Bhd.

(Company No. 118401-V)

Level 17, The Gardens North Tower

Mid Valley City, Lingkaran Syed Putra

59200 Kuala Lumpur

Tel : +60 (3)2264 3883

Fax : +60 (3)2282 1886

E-mail: lay.kiow.lim@my.tricorglobal.com

Auditors

Messrs. PricewaterhouseCoopers

(AF 1146)

Level 10, 1 Sentral

Jalan Travers, Kuala Lumpur Sentral

P.O. Box 10192

50706 Kuala Lumpur

Tel : +60 (3)2173 1188

Fax : +60 (3)2173 1288

Principal Bankers

Citibank Berhad

(Company No. 297089-M)

HSBC Bank Malaysia Berhad

(Company No. 127776-A)

Malayan Banking Berhad

(Company No. 3813-K)

Stock Exchange Listing

**Main Market of Bursa Malaysia
Securities Berhad**

(Company No. 635998-W)

Listed Since : 27 October 1961

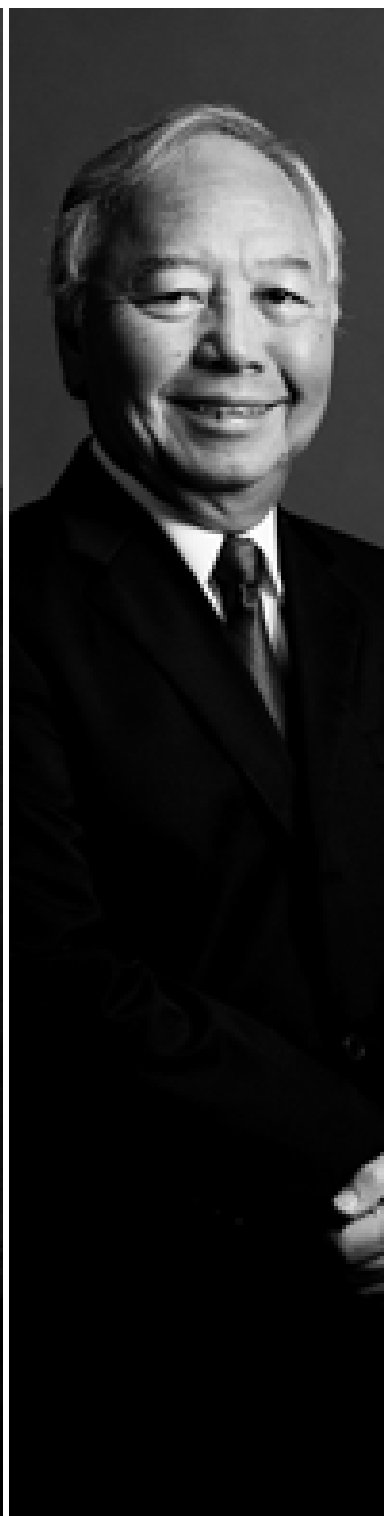
Stock Code : 4162

Stock Name : BAT

CORPORATE STRUCTURE



Note:
For the full list of the Company’s subsidiaries please refer to Note 13 to the Reports and Financial Statements on pages 185 to 186 of this Annual Report.



From left to right

Tan Sri Abu Talib bin Othman

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

Independent Non-Executive Director
Chairman

William Toh Ah Wah

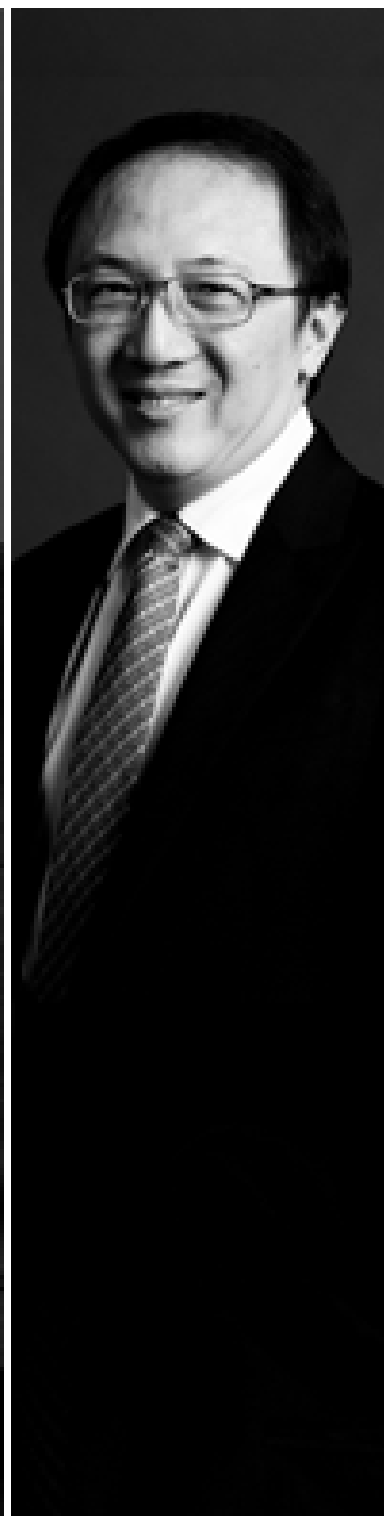
Non-Independent Executive Director
Managing Director

Datuk Oh Chong Peng

PJN, JSM

Independent Non-Executive Director

BOARD OF DIRECTORS



From left to right

James Richard Suttie

Non-Independent Non-Executive Director

Stephen James Rush

Non-Independent Executive Director

Finance Director

Dato' Chan Choon Ngai

DSNS

Non-Independent Executive Director

Operations Director

Dato' Ahmad Johari bin Tun Abdul Razak

DPCM, DSIS, DSAP

Independent Non-Executive Director

PROFILE OF DIRECTORS



Tan Sri Abu Talib bin Othman

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

**Independent Non-Executive Director
(Chairman)**

Malaysian, Age 72 years

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

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

Upon his retirement, Tan Sri Abu Talib was appointed non-executive director in various public and private companies. He is presently a Non-Executive Chairman of IGB Corporation Berhad, Alliance Investment Management Berhad, CYL Corporation Berhad and MUI Continental Insurance Berhad. He is also a Non-Executive Director of other private companies. In 1983, he was appointed as Trustee of Neoh Foundation and in 1985, in Yayasan Sultan Iskandar Johor. He served as Chairman of Suruhanjaya Hak Asasi Manusia (Suhakam) from 2002 to 2010.

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

Tan Sri Abu Talib attended all of the five Board Meetings which were held in the financial year ended 31 December 2010.

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



William Toh Ah Wah

**Non-Independent Executive Director
(Managing Director)**

Malaysian, Age 53 years

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

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

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

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

Since his appointment to the Board of Directors of British American Tobacco (Malaysia) Berhad, William Toh attended four Board Meetings in the financial year ended 31 December 2010.

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



Datuk Oh Chong Peng

PJN, JSM

Independent Non-Executive Director

Malaysian, Age 66 years

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

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

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

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

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

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

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

Datuk Oh Chong Peng attended all of the five Board Meetings which were held in the financial year ended 31 December 2010.

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



James Richard Suttie
Non-Independent Non-Executive Director
British, Age 64 years

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

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

James Suttie attended all of the five Board Meetings which were held in the financial year ended 31 December 2010.

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



Stephen James Rush
Non-Independent Executive Director
(Finance Director)
Australian, Age 43 years

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

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

Prior to his appointment with British American Tobacco (Malaysia) Berhad as Finance Director, Stephen Rush joined the European Regional Team as the Deputy Regional Finance Controller for British American Tobacco p.l.c. in 2004. In his role, Stephen Rush was primarily responsible for the financial performance of Central and Eastern Europe. Effective 15 November 2010, Stephen Rush's portfolio has been expanded to include Strategy & Planning, Project Management Office and Information Technology in addition to his current role as the Finance Director of the Company.

Stephen Rush attended all of the five Board Meetings which were held in the financial year ended 31 December 2010.

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



Dato' Chan Choon Ngai

DSNS

**Non-Independent Executive Director
(Operations Director)**

Malaysian, Age 55 years

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

In July 2000, Dato' Chan was appointed as the Operations Director of British American Tobacco (Malaysia) Berhad. Effective 15 November 2010, Dato' Chan's portfolio has been expanded to include the Business Development Services function in addition to his current role as the Operations Director of the Company. Dato' Chan retired on 31 December 2010 after attaining the age of 55. He was subsequently appointed as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011.

Dato' Chan attended all of the five Board Meetings which were held in the financial year ended 31 December 2010.

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



Dato' Ahmad Johari bin Tun Abdul Razak

DPCM, DSIS, DSAP

Independent Non-Executive Director

Malaysian, Age 56 years

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

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

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

Since his appointment to the Board of Directors of British American Tobacco (Malaysia) Berhad, Dato' Ahmad Johari attended five Board Meetings in the financial year ended 31 December 2010.

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

PROFILE OF TOP TEAM MEMBERS

1 William Toh Ah Wah

Managing Director
Malaysian, Age 53 years

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

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

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

For details of William Toh's profile, please refer to page 38 of this Annual Report.

2 Cheryl Ann Wong Wai Leng

Human Resources Director
Malaysian, Age 42 years

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

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

3 Hendrik Stoel

Marketing Director
Dutch, Age 42 years

Hendrik Stoel was appointed as the Marketing Director of British American Tobacco (Malaysia) Berhad in July 2010. He holds a degree in Marketing from Hanzehogeschool Groningen, Netherlands and Masters in Business Administration from University of Northumbria at Newcastle, England.

He joined British American Tobacco Group in 1995 as Brand Manager in Ukraine before taking up the Group Brand Manager role in 1997. After where, he had several marketing leadership roles in Central Asia, Pakistan and United Kingdom. In 2006, he was appointed as the Marketing Director of British American Tobacco Gulf Cooperation Council (covering markets of Saudi Arabia, United Arab Emirates, Kuwait, Oman, Bahrain and Qatar) and subsequently the Area Marketing Director East Asia in 2008 (covering the markets of Vietnam, Cambodia, Indonesia, Thailand, Philippines and Mongolia). Due to reorganisation, Hendrik left Vietnam after seven months to become the Regional Group Brand Manager Asia Pacific before he was appointed as the Marketing Director of British American Tobacco (Malaysia) Berhad.



4 Stephen James Rush

Finance Director
Australian, Age 43 years

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

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

For details of Stephen Rush's profile, please refer to page 40 of this Annual Report.

5 Dato' Chan Choon Ngai

DSNS
Operations Director
Malaysian, Age 55 years

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

Dato' Chan retired on 31 December 2010 after attaining the age of 55. He was subsequently appointed as the Operations Director of British American Tobacco (Malaysia) Berhad effective 1 February 2011.

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

For details of Dato' Chan's profile, please refer to page 41 of this Annual Report.

6 Christine Lee Oi Kuan Corporate and Legal Affairs Director Malaysian, Age 52 years

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

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

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

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

Christine Lee is also a director of the Board for several subsidiaries in the Group.

7 Lim Hun Chye @ Allen Lim Business Development Services Director

Malaysian, Age 54 years

Lim Hun Chye @ Allen Lim joined as a Commercial Accountant of the then Rothmans of Pall Mall (Malaysia) Berhad in 1990, now British American Tobacco (Malaysia) Berhad. He holds a degree in Commerce from the University of Melbourne and a Masters in Business Administration from Monash University, Australia. He is a member of both the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. In addition, he is also a member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). He worked in various operational roles spanning both the Information Technology and Finance functions. Post the announcement of the merger between Rothmans of Pall Mall and Malaysian Tobacco Company Berhad in 1999, Allen was appointed the Integration Manager. He then took on the role of Corporate Finance Manager for two years before becoming Head of Brand Marketing Finance in 2004 and subsequently the Head of Marketing Finance in 2005. In April 2006, Allen assumed the role of Head of Strategic Business Development and in September 2006, he was appointed as the Business Development Director.

Allen assumed the role of Business Development Services Director from December 2008 to November 2010. His portfolio included Information Technology, Programme Management, Strategy and Planning, Business Security and Business Development.

Due to Allen's relevant experience, he was nominated to lead Malaysia on a pre-pilot evaluation project that would involve the implementation of a fully integrated back office designed by British American Tobacco p.l.c. Group that will operate on a global scale.



GROWTH

THE CORNERSTONE OF SUSTAINABLE GROWTH IS
FOUNDED IN THE PASSION TO ENHANCE OUR GLOBAL
DRIVE BRAND PORTFOLIO AND DELIVER VALUE THROUGH
OUR TRADE MARKETING AND DISTRIBUTION MODEL.



GROWTH

Passion for sustainable growth

British American Tobacco Malaysia's strategy in the face of a challenging business environment for 2010 was to bring our business back to the basics of providing adult consumers with a compelling brand portfolio to drive for sustainable growth. As a result of the Company's strategic initiatives to drive share growth, we achieved 60.0% full year corporate market share.

Our mission saw us enhancing our brand portfolio and honing our trade marketing and distribution capabilities to register corporate market share growth for the first time in ten years, solidifying our position as the market leader.

Our Global Drive Brands

Our Global Drive Brands (GDB) are at the forefront of our successful product refinements and trade marketing and distribution strategies. The strategy of equipping our GDB portfolio with complementary propositions to further strengthen our position in the market resulted in another robust performance for 2010.

In 2010, our enhancement of the brand portfolio saw us focusing on our two biggest GDBs, DUNHILL and PALL MALL, while KENT continued to be steadfast in driving the Premium Lights and Menthol segments. In the Value for Money (VFM) segment, we launched International PETER STUYVESANT as a second VFM proposition for adult consumers in June 2010. In concert with PALL MALL's brand initiatives, the launch of International PETER STUYVESANT propelled the Company closer to achieving VFM leadership.



"Passion to me is the catalyst that sparks creativity and pushes me away from mediocrity to excel in whatever I do."

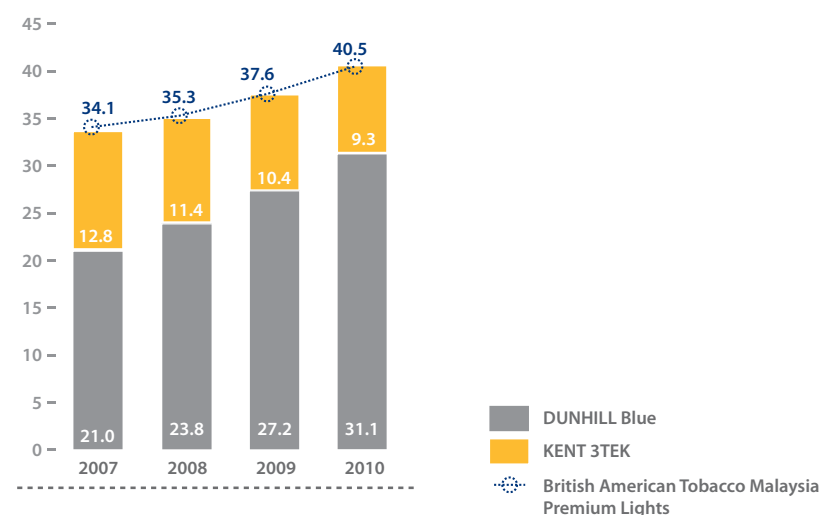
Michael Tan, Channel Manager, Refreshment

Driving towards leadership in Premium Lights and Menthol

In 2010, British American Tobacco Malaysia continued its momentum from 2009 to grow market share in the Premium Lights and Menthol segment. The strong performance driven together by DUNHILL and KENT has resulted in solid volume and share growth to outpace industry growth in these two strategic segments.

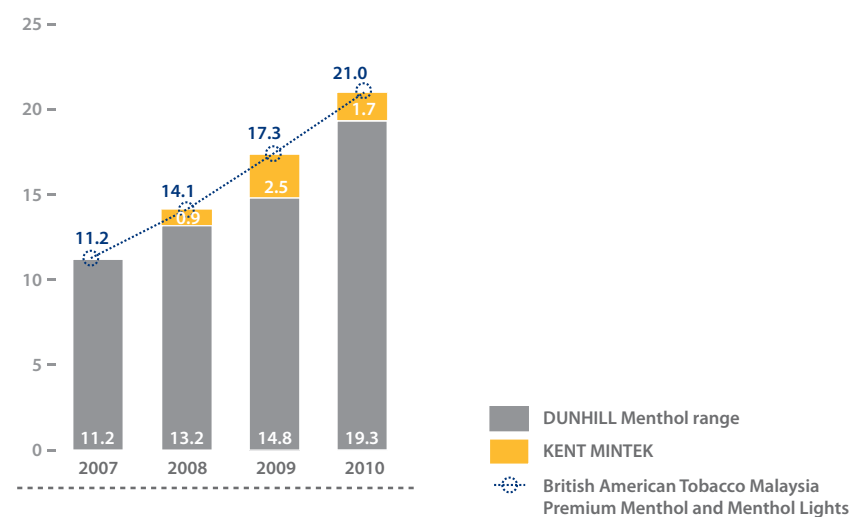
British American Tobacco Malaysia Premium Lights Share of Segment

Source: Retail Audit, base = Premium Lights



British American Tobacco Malaysia Premium Menthol and Menthol Lights Share of Segment

Source: Retail Audit, base = Premium Menthol and Menthol Lights



Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

HIGHLIGHTS

40.5%

market share in **Premium Lights segment** for 2010 contributed by DUNHILL Blue and KENT 3TEK.



21.0%

Market share in 2010 **Premium Menthol and Menthol Lights segment** contributed by the DUNHILL Menthol range and KENT MINTEK range.





"Passion is about liking what you're doing and doing it with heart. Once you achieve that, then you can truly say you're passionate."

*Thomas Tan,
Merchandising Executive*

DUNHILL

Following the launch of the DUNHILL resealable Reloc pack in 2009, the full success of its impact on the market was felt in 2010 as the brand grew in strength to cement its position as the undisputed market leader in Malaysia. Through the functionality of the Reloc feature, which ensures the freshness of the product for a longer period, DUNHILL continued to set the benchmark in redefining the standards of a premium product offering in this segment.

1



KENT

KENT's range, 3TEK (Triple Filter Charcoal Technology) and MINTEK (MINTEK Charged Flavour Technology) continued to pioneer taste transmission technologies to meet diverse consumer needs.

2



1 The launch of the DUNHILL resealable Reloc pack last year redefined the standards of a premium product and cemented DUNHILL's position as the market leader.

2 KENT range continued to pioneer taste transmission technologies in 2010.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

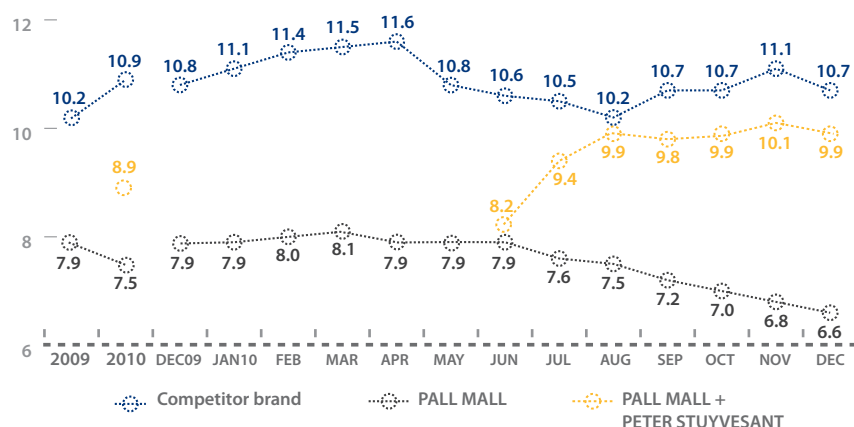
Accelerating towards leadership in Value for Money segment

In our quest to attain leadership position in the Value for Money (VFM) segment, in 2010, we channelled our focus behind various brand initiatives for PALL MALL as well as the launch of PETER STUYVESANT as our second VFM proposition to further bolster the performance of our VFM portfolio.

Gaining momentum towards VFM leadership in 2010:

PALL MALL and PETER STUYVESANT versus competitor share of market (%)

Source: Malaysia Retail Audit FY 2010 vs. FY 2009 (Base: Total Whites)



PALL MALL

PALL MALL emerged resilient in its journey towards leadership in the VFM segment in spite of unfavourable business conditions, through its successful innovations and strong brand offering of quality, value and affordability. The launch of the new blend for PALL MALL Red and Blue in March 2010 further showcased our passion to offer a quality brand with value to our consumers.

PETER STUYVESANT

In June 2010, British American Tobacco Malaysia launched the international brand range, PETER STUYVESANT, as a second VFM proposition to further strengthen our position in the VFM segment. Since then, the latest addition to our brand portfolio has, together with PALL MALL, driven us closer to attaining VFM leadership.

HIGHLIGHTS

9.9%

We are close to VFM leadership with 9.9% market share contributed by PALL MALL range and PETER STUYVESANT range.



PALL MALL Red and Blue's New Blend offering a quality brand that is value for money for consumers.

The launch of PETER STUYVESANT as a second VFM proposition to accelerate VFM leadership.

Produk ini mengandungi lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesihatan.

Passion for excellence in distribution through strong trade marketing capabilities

Furthering our commitment towards creating an effective distribution footprint to secure British American Tobacco Malaysia's future growth.



"Passion is all about the love for what we're doing, giving it our absolute best when doing it, and savouring the feeling of satisfaction and appreciation from the results reaped."

*Thomas Lee,
Sales and Distribution Manager*

Our network consolidation journey was kickstarted in 2005 with the establishment of the first in-house Direct Store Sales (DSS) operation in Kuala Lumpur to develop and implement best practices to ensure sustainability of our trade marketing and distribution model. The successful set up of the DSS operation in Kuala Lumpur initiated the set up of DSS in Penang and Johor Bahru in quick succession.

In addition, to complement our efforts of enhancing the distribution model through the set up of our DSS operations and to create long-term partnership with our business partners, an Exclusive Distributor Excellence (EDx) model was also implemented in the East Coast (Kelantan and Terengganu) in 2008 and later in the Northern region (Alor Setar and Kangar) in 2009.

Following British American Tobacco Malaysia's initiative to consolidate our distribution networks, 2010 marked the first time that the Company launched two EDx operations consecutively. The operations were set up in the North Johor and Malacca areas as well as in the Seremban area. Two distribution points were also consolidated in 2010, enhancing our distribution network. In total, ten distribution points have been consolidated since the inception of the EDx operations in 2008, creating an effective distribution footprint to secure British American Tobacco Malaysia's future growth.

Apart from the physical consolidation of the distribution network, this consolidation also ensured alignment of business objectives between British American Tobacco Malaysia and the EDx operations to ensure systematic management. Key performance indicators for these EDx operations were shared and measured, while structured business reviews were conducted to discuss and formulate actions to address any areas of improvements between the two parties.

- 1 The official opening ceremony of an Exclusive Distributor Excellence operation.
- 2 Efficient and systematic warehouse procedures in all Exclusive Distributor Excellence operations.





Since set-up, the EDx operations run by our business partners have proven themselves to be as effective as our in-house DSS operations in their sales and distribution activities.

Optimising distribution cost through One-Man-Show operations

In addition to network consolidation in 2010, the Company also implemented One-Man-Show (OMS) operations in identified areas after careful planning and strict selection criteria to ensure quality of market service was not compromised. OMS is a term given to van sales operations that are managed by one person instead of the usual two-man team, to optimise operational cost. As a result of the successful implementation of this initiative, a total of 211 van operations nationwide are currently running on OMS.

Boosting passion and high performance through targeted incentives

In order to motivate the sales force to deliver the Company's stretch volume and share of market targets, a booster incentive was also put in place to drive work passion and high performance. On top of this added incentive, a structured communication campaign was developed to motivate our sales force to achieve these targets.

HIGHLIGHTS

TWO Exclusive Distributor Excellence (EDx) operations launched this year in North Johor and Malacca areas as well as the Seremban area.

P – Proactive in whatever we do
A – Anticipate to be one step ahead
S – Sincere to all stakeholders
S – Sight on strategies to deliver objectives
I – Initiate to go the extra mile
O – Organise for excellent execution
N – Never give up

August Tham, Sales and Distribution Manager



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

Our OMS van sales operations optimises operational cost.



PRODUCTIVITY

OUR PASSION FOR PRODUCTIVITY IS ALL ABOUT THE DRIVE TO WORK FASTER, BETTER AND SMARTER TO ACHIEVE EFFECTIVE AND EFFICIENT EXECUTION.

PRODUCTIVITY

Passion for excellence in productivity

British American Tobacco Malaysia's commitment for 2010 was towards working faster, better and smarter to achieve excellence in productivity. In line with this mission, our focus was to drive initiatives to optimise our resources and enhance overall efficiency and effectiveness in our operations. These initiatives are our driving factors towards creating a sustainable business operations model.

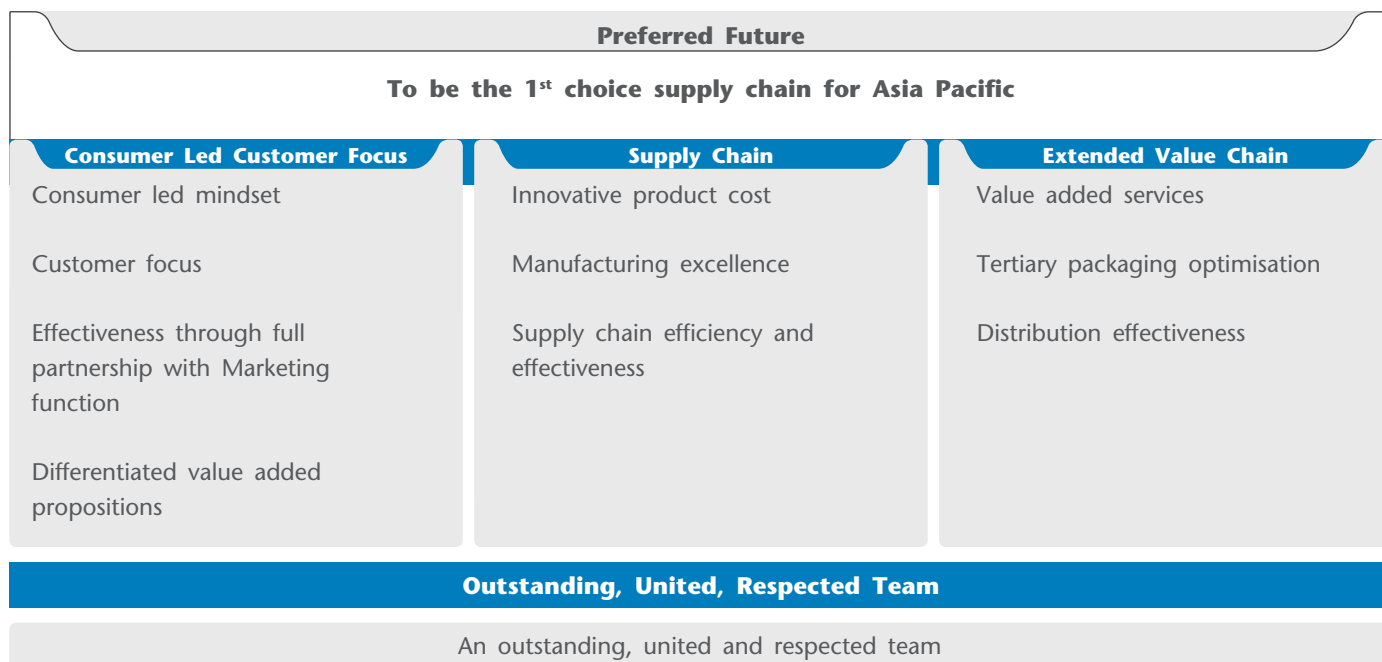
Driving Breakthrough Programmes

Breakthrough 4

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

Our Breakthrough 4 aims are captured in this diagram below:

No. 1 British American Tobacco supply chain in quality, delivery and cost effectiveness



In summary, the Breakthrough 4 programme which started in 2009 has achieved the following benefits within the 2-year period:

- Productivity improved by 27%.
- Customer satisfaction ratings exceeded target by 14%.
- Total product cost savings exceeded target by 46%.
- Tertiary packaging cost savings exceeded target by 60%.
- Sustained excellence in product quality exceeded target by 4%.
- 100% employees participation in Continuous Improvement and Breakthrough 4 activities.
- Developed a framework to strengthen individual performance and leadership to promote supply chain professionalism and team expertise.

Our Breakthrough journey from 2002 to 2010

Four Breakthrough programmes later since its inception in 2002, the dynamics and focus of the programmes have evolved from concentrating on factory performance improvements and upscaling employee capabilities post-merger between Malaysian Tobacco Company Berhad and Rothmans of Pall Mall (Malaysia) Berhad, to focusing on improving our supply chain excellence by being consumer-focused from end to end.

Today, our Breakthrough journey has helped us achieve distinction in our supply chain processes that puts us alongside other world class British American Tobacco manufacturing facilities around the globe. We have developed a high performing team that is consumer led and customer focused, and is committed towards achieving our preferred future as the 1st Choice Supply Chain for Asia Pacific.

Continuation of our high standards

The Breakthrough programme has been a huge success in supporting our company strategy to address increasing challenges in business complexity and adverse global economic situation.

With close to ten years of operational improvements and a keen focus on productivity efficiency and effectiveness engrained into the working culture of our people, 2010 marked the final year of our successful Breakthrough programme. We carry forward these best practices and learning to achieve our vision to be the No. 1 British American Tobacco Supply Chain in quality, delivery and cost effectiveness.

HIGHLIGHTS

Breakthrough 4 achievements from 2009 – 2010

27%

Improvement in productivity

46%

Target exceeded by 46% for total
product cost savings

14%

Target exceeded by 14% for customer
satisfaction ratings

60%

Target exceeded by 60% for tertiary
packaging cost savings

4%

Target exceeded by 4% for sustained
excellence in product quality

100%

Employee participation in Continuous
Improvement and Breakthrough 4
activities

**Developed a framework to
promote Supply Chain excellence**

HIGHLIGHTS

Breakthrough journey from 2002 to 2010 key achievements:

200%

increase in factory output productivity.

Outstanding advancement in quality and efficiency of end-to-end supply chain delivery

Driving productivity initiatives to create a sustainable business environment

Through key Productivity drive team initiatives identified and implemented throughout the Company, funds generated from resource and cost optimisation were channelled back into the Company to invest in key strategies to deliver market share growth and support business sustainability.

Highlights of key Productivity drive team initiatives are outlined below:

- **Running on more cost-efficient fuel consumption**
All company vehicles switched from RON97 to RON95 which uses more environment-friendly combustion technology with cleaner additives. All company vehicles that switched from RON97 to RON95 in 2010 resulted in cost-savings of 12%.
- **Optimising the way we use company vehicles**
Leveraging on advancement in automotive technology and enhanced safety features in vehicles, a new replacement guideline for all company vehicles was rolled out to optimise usage while maintaining safety and service standards.
- **Improving our speed to market**
Reviewed how we can consolidate delivery routes for our distribution has resulted in minimising travel time and improving our goal to deliver on time and in full to our distributors.
- **Managing our fleet**
Implemented a company-wide fleet management system to improve processes and obtained best deals from service providers for our vehicles.

More Productivity drive team initiatives to improve our business sustainability can be found under the Responsibility pillar.

Cementing a culture of Continuous Improvement

The Continuous Improvement (CI) Kaizen programme, taken from the word *Kaizen*, was first launched in 2006 and is based on a system of continuous improvement. *Kaizen* essentially means making changes anywhere improvements can be made and adhering to the philosophy of doing things better, faster and smarter.

In 2010, the Company achieved a total number of 1,463 in completed CI-Kaizen initiatives. Since the inception of the programme in 2006, the Company has seen the completion of 6,083 CI-Kaizen initiatives.

The Operations team expanded the CI-Kaizen programme to team improvement, from its previous focus on individual improvement. Known as Kaizen Circle, this programme leverages on a structured problem-solving methodology that incorporates customised modules to coach the Operations employees on employing the Kaizen Circle principles.

The CI-Kaizen programme also underwent its own improvement with the removal of the category, "work simplification" from the list of CI-Kaizen categories, resulting in a more accurate grouping of CI-Kaizen categories for improvement of delivery and productivity, enhancing of quality, growth generation, cost savings, and enhancing our working environment.

HIGHLIGHTS

Cementing a culture of continuous improvement:

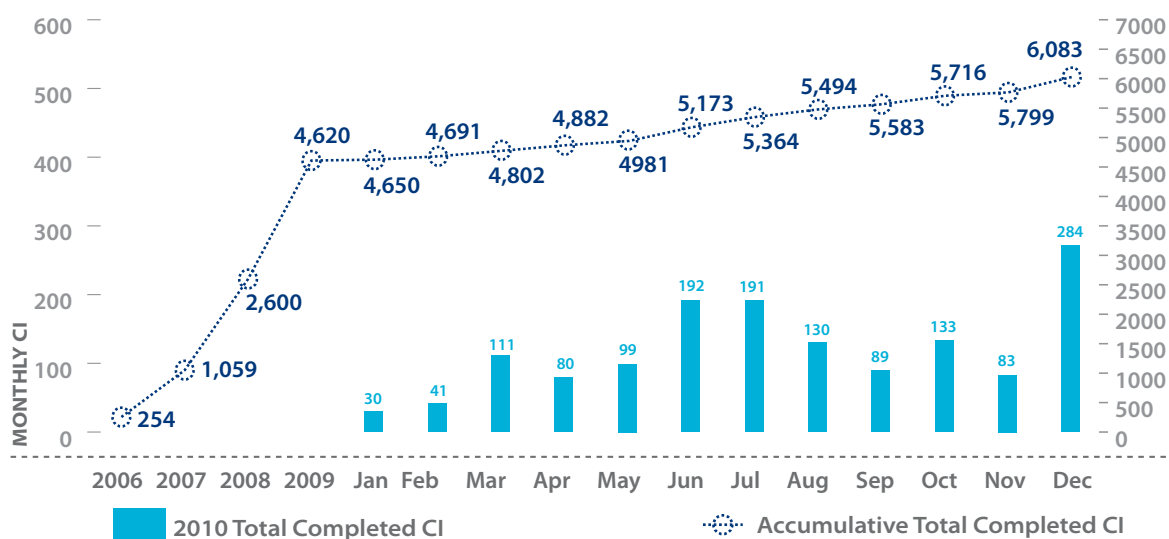
1,463

Total no. of completed CI-Kaizens initiatives in 2010.

6,083

Total no. of completed CI-Kaizens initiatives since 2006.

Company-wide CI-Kaizen initiatives from 2006 to 2010



HIGHLIGHTS

Key initiatives to consolidate and streamline our IT infrastructure in 2010 are listed below:

- Upgrade of domestic and international IT infrastructure.
- Consolidation of mobile telecommunications service provider.
- Streamlining of IT server environment via virtualisation technology.

Leveraging on technology to drive excellence in productivity

Consolidation of Information Technology (IT) infrastructure to increase efficient and effective delivery

Key efforts to consolidate and streamline our IT infrastructure to improve performance, accelerate response time and increase productivity were implemented throughout 2010. Some of the key efforts are listed below:

- The domestic and international IT Infrastructure was upgraded to improve performance of the application systems being used for mission critical systems, resulting in an accelerated response time and productivity. Our sales IT system, Swift, has registered an improvement of 30 minutes daily in response time nationwide.
- Our mobile telecommunications service provider was consolidated to obtain economies of scale whilst improving our vendor management and service quality to our users nationwide.
- Our IT server environment was streamlined via virtualisation technology by replacing 23 physical servers with three virtual ones, resulting in one-off capital cost reduction of RM450,000 whilst improving energy consumption with a reduced carbon footprint.

Streamlining production reporting to boost productivity

This year, in line with our efforts to streamline our processes to increase efficiency and overall productivity in our operations, a systematic single monitoring tool was introduced to track production Key Performance Indicator (KPI) reports for the Secondary Manufacturing Department such as machine downtime, equipment efficiency and output, among others.

The introduction of this system streamlined processes of tracking and producing KPI reports, which were previously conducted manually with long man hours. As a result, this has helped enhance productivity through efficient tracking of KPI reports.



"My work is all about finding ways to improve my colleagues' productivity and helping them find ways to work faster, better and smarter. Successfully doing this is what gives me passion at work."

Avinash Suresh,
Senior Business Analyst Supply Chain

Finding web-based workflow solutions to improve efficiency

In 2010, we developed a web-based workflow system, BridgeNet to improve efficiency of work processes between British American Tobacco operating units in the Asia Pacific region and its agency partners based on the New Operating Guidelines between British American Tobacco and its agencies.

This new solution replaced the previous system of conducting work processes between British American Tobacco end markets in Asia Pacific and its agencies partners via email, wherein full visibility of work processes was not available to all team members.

BridgeNet streamlined this process through accomplishing the below:

- Reduced time spent on tracking work manually.
- Increased speed-to-market via quick turnaround of approvals and feedback.
- Introduced version tracking to improve quality of briefings and feedback aimed at reducing reworks.
- Standardised briefs and formal process sign-offs to ensure quality.



"Having worked with the Company for 13 years, I can honestly say that my work still motivates me. I've always been interested in the mechanical field so this gives me a lot of self-satisfaction."

*Rafeezi, Cutter,
Primary Manufacturing Department*



"Passion is about being one's own cheerleader to drive oneself towards that finish line."

*Melissa Quah,
Management Trainee*

RESPONSIBILITY

OUR PASSION FOR RESPONSIBILITY ENCOMPASSES OUR
UNWAVERING FOCUS ON ADDRESSING KEY BUSINESS-
RELATED SOCIAL, ENVIRONMENTAL AND ECONOMIC
IMPACTS IN A WAY THAT AIMS TO BRING VALUE TO ALL
OUR STAKEHOLDERS AND SHAREHOLDERS.



RESPONSIBILITY

Embedding passion to drive business sustainability

Responsibility is an integral pillar of the Company's business strategy and a prerequisite which defines how British American Tobacco Malaysia operates its business. This has been clearly demonstrated through the Company's progressive evolvement from Corporate Social Responsibility (CSR) to Corporate Responsibility (CR) and in 2010, Sustainability.

As fittingly outlined by Bursa Malaysia in its Sustainability Guide, sustainability means different things to different people, and for British American Tobacco Malaysia, it is addressing key business-related social, environmental and economic impacts to build stakeholder and shareholder value, thereby improving commercial sustainability. The move towards sustainability was further spurred by increasing expectations from stakeholders.

Sustainability however, is not something that is new to British American Tobacco Malaysia, as many aspects of it have been embedded in our business operations given our longstanding presence in Malaysia. Many of the Company's initiatives, such as its Afforestation Programme to offset the Company's carbon emissions, building homes for the hardcore poor and robust Environment, Health and Safety (EHS) programmes, just to name a few, are demonstrative of this.

It is our firm belief as well that our commitment towards CSR (focusing on social initiatives) and CR (focusing on corporate governance, social improvement and environmental management) have been key towards shaping the Company's current sustainability agenda. This is why in 2010, our initiatives continue to be based on the framework of Community, Environment, Workplace and Marketplace, which is an essential element as is our stakeholders' expectations in paving the path of a holistic sustainability approach.

This approach is admittedly not an overnight process, but with the dedication of our people, and the commitment of the Company, it is a journey that will ensure the continuity of our business sustainability.



Sustainability agenda – commitment from the top

Demonstrating its commitment from the top, the Company is governed by a CSR Committee that comprises of all members of British American Tobacco Malaysia's functional directors, or Top Team as they are called, chaired by the Managing Director.

The objectives of the CSR Committee are as follows:

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

The CSR Committee reports on the Company's CR initiatives and more recently, sustainability initiatives to the Board of Directors via the Audit Committee and meets at least twice a year. This line of reporting is further escalated to the British American Tobacco Regional CSR Committee, which in turn reports to the British American Tobacco Global CSR Committee.

A dedicated CSR team is also tasked to coordinate and implement CR initiatives. In 2010, a Sustainability Team, which includes the CSR team and comprises of cross-functional employees, was formed to identify, implement and monitor sustainability initiatives in the Company.

British American Tobacco Malaysia's CR and Sustainability Framework

The Company believes that corporate responsibility is not a 'tick in the box' exercise, and in this aspect, all its initiatives are aligned to Bursa Malaysia's CSR framework which was launched as a guideline for public listed companies in 2007.

Following the evolvement of British American Tobacco Malaysia from CR towards sustainability, we have continued to use this framework. We believe that a company's sustainability focus is dependant on the business impact of its operations on these four pillars.



British American Tobacco Malaysia's CR Framework

Community

Our aim of giving back to society is driven by our passion and commitment to make a difference in the communities in which we operate and in 2010, we held various activities to achieve this objective through the British American Tobacco Malaysia Foundation.

HIGHLIGHTS

15 homes

Built for the hardcore poor – an initiative by British American Tobacco Malaysia Foundation and Lembaga Kemajuan Kelantan Selatan (KESEDAR).

- 1 Left to right – Dato' Ramzi bin Abdul Rahman, Chairman of KESEDAR representatives of British American Tobacco Malaysia Foundation, Dato' Chan Choon Ngai, Christine Lee and Encik Abdullah bin Embong from the Ministry of Rural and Regional Development together laying the foundation stones for the homes in Gua Musang.
- 2 Deserving recipients of the British American Tobacco Malaysia Foundation's scholarship rejoice at the scholarships award ceremony in November 2010.

Alleviating hardcore poverty

The British American Tobacco Malaysia Foundation and Lembaga Kemajuan Kelantan Selatan (KESEDAR) collaborated for the first time to help alleviate hardcore poverty by building 15 homes for the hardcore poor in Gua Musang, Kelantan. This initiative, estimated at a cost of RM495,000, is part of the Program Penempatan Masyarakat Setempat (PPMS) which is one of many programmes established by the Government to reduce poverty rate and eradicate hardcore poverty in the country.

A foundation stone laying ceremony was held on 25 February 2010 to officially mark the collaboration effort and was attended by the Governors of British American Tobacco Malaysia Foundation as well as the Chairman of KESEDAR and the People's Welfare Division from the Ministry of Rural and Regional Development. Each home has approximately a 600 square feet build up area that comes with three bedrooms, a living room and a kitchen that can accommodate a medium-sized family comfortably.

Supporting deserving students

The British American Tobacco Malaysia Foundation aims to foster, develop and improve education opportunities to deserving students.

Demonstrating our passion and commitment towards supporting the education of deserving students, this year, British American Tobacco Malaysia Foundation awarded a total of RM395,000 to 27 recipients for the full duration of their course of study. The recipients comprised of students from the retailers community, the leaf growers and curers community, our employees, and their children.

To date, the Foundation has awarded scholarships to more than 2,000 deserving Malaysians, bringing the total investment of the Foundation to more than RM15 million.



Relieving the burden of starting up in university

A sound education forms the foundation of a fulfilling future. With this belief, the British American Tobacco Malaysia Foundation and the National Kenaf and Tobacco Board collaborated for the eighth year running to sponsor the Higher Education Starter Kit (HESK) programme to ease the financial difficulties that many students from the leaf growing community face as they take their first step into higher education.

Students pursuing diploma courses received RM500, while those pursuing degree courses were awarded RM700. This fund helps these students to get necessities such as books, clothes, accommodation and transportation. This year, a total of RM128,500 was awarded to 217 HESK recipients.

Since its inception in 2002, we have awarded over RM1.1 million to more than 2,000 recipients from the tobacco farming and curing community through the HESK programme.

Disaster relief aid

British American Tobacco Malaysia made a concerted effort as part of our corporate social investment to ease the burden for victims of natural disasters around the world in 2010 through several collections of disaster relief aid. In 2010, we collected funds from our employees with contributions from the Company towards the Haiti Earthquake Relief Fund to support the building of transitional homes for the quake victims. Funds were also contributed by employees and from the Company to alleviate the suffering of victims affected by the devastating floods in Pakistan in July 2010 and the eruption of Mount Merapi in Java, Indonesia.

The combined collection from employees and donations by British American Tobacco Malaysia towards the disaster relief around the world for 2010 amounted to RM65,400.



HIGHLIGHTS

2,000 recipients

from the tobacco farming and curing community awarded through the HESK programme since 2002.

Deputy Minister of Plantation Industries and Commodities Datuk Hamzah Zainuddin presenting the HESK award to several HESK recipients together with Christine Lee and Dato' Chan Choon Ngai.

1

HIGHLIGHTS

144

Employees participated in the Employee Volunteer Programme activities in 2010.

Instilling a culture of giving back to society

We in British American Tobacco Malaysia stand by the principle that the culture of giving back should start from within. Our employees have tirelessly dedicated their time and commitment to our numerous Employee Volunteer Programme (EVP) activities since its inception eight years ago.

In 2010, we embarked on initiatives that have seen EVP participants volunteer their quality time and funds to put a smile on the faces of the less fortunate. This year, our EVPs were also conducted during major festive seasons to bring warmth and cheer to the less fortunate in the community.

Coinciding with Chinese New Year festivities were two EVPs held in February 2010. These EVPs saw our employees treating children from the House of Joy to a trip to IOI Mall, Puchong and spend time with the elderly from Joy Garden, Semenyih. In conjunction with Hari Raya Puasa in September 2010, our employees treated children from Rumah Amal Kasih Bestari to a field trip to Petrosains, Suria KLCC. For Deepavali, our employees donated furniture, educational books and board games to Trinity Children's Home, Selangor. In addition, our employees also brought Deepavali cheer to the children of Tara Bhavan with a trip to the Kuala Lumpur Bird Park.

The successful completion of our activities saw an increase in our total EVP participation, from 92 volunteers last year to 144 this year. A combined donation of RM34,250 were given by volunteers as well as the Company towards these homes.

- 1 Employees spreading joy to the children from Rumah Amal Kasih Bestari with an educational trip to Petrosains, KLCC.
- 2 Our employees took children from House of Joy, Puchong for a day out at IOI Mall, Puchong.



Workplace

British American Tobacco Malaysia believes that the key to a high performing and engaged workforce is in constantly implementing innovative and effective ways to create a working experience that ignites passion and excitement in every employee. This value-adding working experience is cultivated through enhancing work facilities, providing attractive propositions and placing top priority on employee safety and wellbeing.

Engaging our employees

We subscribe to the belief that engaged employees, underpinned by a robust communications strategy, lead to a high performing workforce, and is key in delivering the Company's strategy and business performance. This is why we have deployed various communications channels, both direct (i.e. face-to-face) and indirect (i.e. through communication tools) to give our employees line of sight to the Company's strategy and objectives to ensure that employees' roles and responsibilities are aligned and contribute to such strategies and objectives.

The communications channels employed are outlined below:

Indirect communication

Our indirect communication channels disseminate important announcements, company notices and key updates on projects and programmes to all employees. Key communication channels are outlined below:

- Company intranet
- Notice boards
- Company email lists

Direct communication

	Business Update (Employee town hall session)	Functional Team Talks
Frequency	Three sessions	Six sessions
Objective	To share updates on the global business, the region we operate in (i.e. Asia Pacific), as well as the business in Malaysia.	(See Business Update objectives) Additionally, updates from individual functions are also shared company wide
Audience	Management employees	All employees
Spokesperson	Managing Director, Top Team and senior management	senior management

A Business Update presented by the managing director, top team and senior management to all management employees.

1

Employees provided line of sight of the Company's strategies and objectives during functional team talks.

2



1



2

Environment

British American Tobacco Malaysia's focus for 2010 was on upholding our commitment towards responsible management of our operations and enhancing our business practices towards sustainable development.

Responsible management of our operations

We recognise that quality, environment, health and safety are key determinants of the sustainability of our business operations.

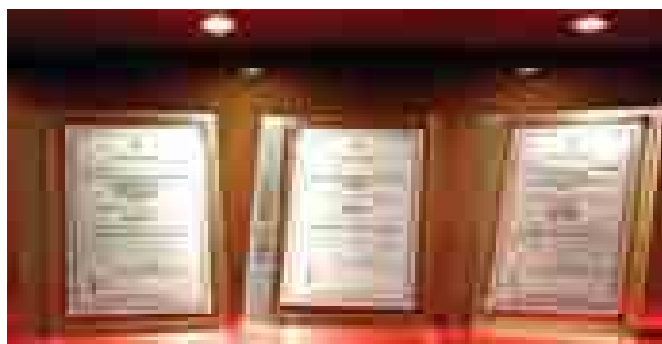
Towards that end, an integrated management system was formulated and implemented by our fully-owned manufacturing subsidiary, Tobacco Importers and Manufacturers Sdn. Bhd. in our commitment towards achieving higher standards of productivity and quality among employees without compromising our principles on environment, health and safety.

In June 2010, external auditors, Lloyds' Register Quality Assurance continued our certification of the below for the eighth consecutive year, which is a testament to the international standards that we adhere to:

- ISO 9001: 2008, for a quality management system that consistently provides and enhances products that meets regulatory requirements and delivers customer satisfaction.
- ISO 14001: 2004, for implementing, maintaining and improving our environmental management system.
- OHSAS 18001: 2007, for effective management of occupational health and safety in reducing risk and improving performance.

A regional audit on our environment, health and safety (EHS) practices is also conducted every three years by internal auditors from other British American Tobacco operating companies. The regional environment, health and safety audit conducted in July 2010, which involved a more stringent audit procedure in comparison to a similar company audit, reflected marked improvement on all operation and commercial areas in comparison to our internal company audit scores in early 2010. The scores are as follows:

	BAT Malaysia internal company audit 2010 (full score = 4.00)	Regional EHS audit 2010 (full score = 4.00)
Operation		
Management topics	3.84	3.88
Technical topics	3.29	3.47
Commercial		
Management topics	3.28	3.31
Technical topics	3.17	3.22



HIGHLIGHTS

433

CI-Kaizen initiatives were implemented in 2010 to enhance our environment, safety and good housekeeping practices.



"Passion is believing in what we're doing, and feeling that our actions are contributing to a greater cause."

*Noh bin Moh,
Sales and Distribution Manager*

Enhancing our business practices towards sustainable development

As testament to our commitment towards sustainable development, we constantly strive to enhance and improve our environmental management. One such initiative is the contribution of ideas on improving our environment, health and safety procedures through our Continuous Improvement (CI) – Kaizen initiative outlined in our Productivity section. In 2010 alone, a total of 433 CI-Kaizen initiatives were implemented to enhance our environment, safety and good housekeeping practices.

Implementations of initiatives such as the installation of recycling bins in office pantries and the previous installation of the economiser units for our boilers to encourage efficient waste and energy management contribute to these overall reductions.

Our unwavering dedication towards reducing our environmental footprint has also seen efficient and effective environmental management in 2010, resulting in an overall reduction in total energy and waste, in addition to reductions in usage of natural gas and water.

	2009	2010	Total reduction
Natural Gas (1000 m ³)	1,868.1	1,738.5	6.9%
Total Energy (GJ)	256,818	236,012	8.1%
Water (m ³)	241,268	206,556	14.4%
Total Waste (tonne)	1,949	1,642	15.8%

Go Green to protect the environment

This year as part of our **Go Green** initiative to embed environmental awareness in our business, we embarked on numerous initiatives to reduce the environmental impact in our daily operations. The initiatives undertaken are listed below:

- Embedding the culture of conserving paper**
 The paper conservation project which began in June 2009 to reduce unnecessary paper usage and to embed a culture of effective paper management reduced a total of 1.56 million sheets of paper (equivalent to the size of 190 football fields) since the inception of the project.
- Replacing bottled water with water dispensing units**
 In May 2010, water dispensing units were placed in the meeting rooms and pantries of the Company to replace the use of bottled mineral water. With an estimated 45,000 bottles of mineral bottles consumed last year, we are able to reduce 630 kg of plastic waste annually following this initiative.
- Going paper-based for Point of Sales Materials (POSM) and Youth Smoking Prevention signage**
 In further reducing our impact on the environment, British American Tobacco Malaysia has in place an initiative to use paper-based materials for all POSM and no sale to youth signage. This is to replace the current use of non-environmental-friendly acrylic materials.

Commitment towards protecting our biodiversity

In August 2010, our employee, Te How Keat was chosen as one of the selected few to participate in the Earthwatch Employee Fellowship Programme in Danum Valley Conservation Area and the Malua Forest Reserve in Sabah to learn more about biodiversity and its impact on our business. He joined participants from other British American Tobacco operating centres in tree-planting and measuring exercises and also biodiversity workshops during the duration of the programme. The Earthwatch Employee Fellowship is an annual programme under the British American Tobacco Biodiversity Partnership and is open to participation from employees throughout the British American Tobacco Group. Participants were also given the opportunity to obtain grant of £1,500 to organise projects in their areas of interest to further create awareness on protecting biodiversity.

Carbon positive business

British American Tobacco Malaysia is committed to supporting long term environmental sustainability through reducing its carbon footprint. This is aligned to the nation's goal of reducing 40% of its carbon dioxide (CO₂) emissions by the year 2020 compared to 2005 levels.

British American Tobacco Malaysia has since 2002, initiated an afforestation programme which has contributed approximately 6,467 hectares of various tree species (equivalent to 8,858 football fields). Planted in the Forest Management Unit No.4 in Ulu Tungud, Sabah, the afforestation programme has sequestered more than 230,000 tonnes of CO₂ per annum.

Annual checks to verify the net hectareage of surviving trees and their growth rate are conducted by an external third party auditor, SGS Forestry. Additionally, our afforestation programme partner, TSH Resources Berhad carries out constant monitoring and maintenance of the trees planted.

In 2010, British American Tobacco Malaysia's total carbon dioxide emission was 28,370 tonnes and current projections demonstrate that we will remain carbon positive until 2024 based on present business operations.

Environment, health and safety mentoring programme

The Environment, Health and Safety (EHS) Mentoring Programme is a three year programme that was developed in 2008 with the objective of benchmarking our key business partners' EHS standards against ours and to share with them our business expertise and best environment, health and safety practices. Currently at the second phase of the programme, two of our key business partners – AMB Packaging and TASCO are undergoing the programme which will enable them to enhance their environment, health and safety standards of operations.

HIGHLIGHTS

1.56 million sheets of paper

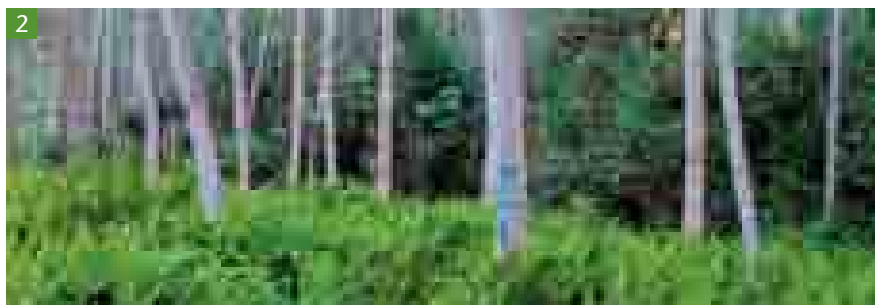
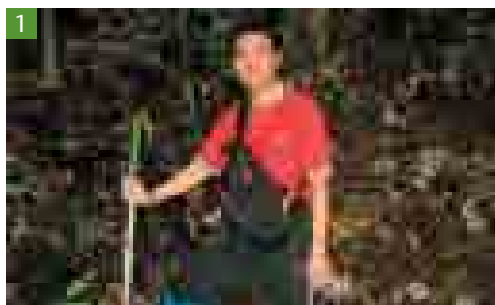
was saved through the Paper Conservation Project from June 2009 to July 2010.

Carbon Positive until 2024

estimated based on present business operations.

British American Tobacco Malaysia employee, Te How Keat, in the midst of a planting enrichment task during the Earthwatch Employee Fellowship Programme in Sabah. **1**

Carbon positive business through afforestation programme. **2**



Marketplace

The scourge of illicit cigarettes remains a top concern for the tobacco industry and the Government. According to Goldman Sachs earlier in 2010, Malaysia has the highest recorded incidence of illegal cigarette trade worldwide. This staggering level of illicit cigarette trade continues to impact the legal cigarette industry and the Government.

In support of the Government's efforts to eradicate this problem, we remain committed to work together with other industry players and the relevant authorities to combat this scourge.

Combating illegal cigarettes in the market

In 2010, the Confederation of Malaysian Tobacco Manufacturer (CMTM), of which British American Tobacco Malaysia is a member, continued its awareness campaign on illicit trade to retailers by distributing information leaflets in Bahasa Malaysia and Chinese to more than 80,000 retailers nationwide. These leaflets set out the enforcement activities undertaken by the enforcement agencies, laws and penalties related to illicit tobacco trade and key pointers to differentiate between illegal and genuine cigarettes.

CMTM also provided support to the Royal Malaysian Customs (RMC) on their anti-illicit trade campaign called OPS PACAK. OPS PACAK is a campaign to raise awareness on the scourge of illicit trade among retailers and the public, and also to crack down on its rampancy through enforcement activities. The OPS PACAK campaign was carried out in June and December in Kuala Lumpur and Selangor respectively.

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

- 1 Information leaflets on illicit cigarette trade distributed to over 80,000 retailers nationwide.
- 2 Launch of OPS PACAK to raise awareness of the scourge of illicit trade among retailers and the public.



In order to raise the level of awareness on illicit trade in cigarettes and identify key illicit brands in Malaysia, CMTM also proactively engaged with various law enforcement agencies which included the RMC, Marine Police and Malaysian Maritime Enforcement Agency and the Ministry of Health through dialogues.

Openness and transparency in procurement processes

We in British American Tobacco Malaysia believe strongly in embedding the practice of transparency and openness throughout all aspects of our operations, and this includes how we conduct our procurement processes with external business suppliers.

The Company's Procurement Policy, which is approved by the Board of Directors, outlines the processes and procedures involved in acquisition of all goods and services in the Company and encompasses the vendor selection process. The Procurement Policy also outlines the responsibilities of all functions in this process.

Our procurement procedures strictly adhere to our standards in ensuring we achieve the best overall value and quality for all expenditure, timely delivery of goods and services, mutually beneficial long term relationship with our business partners underpinned by high ethical standards in all our business dealings.

All procurement transactions are advised by our dedicated procurement team that ensures all acquisition of goods and services in the Company not only delivers optimum value but is also in compliance with the Procurement Policy.

Regulatory developments in 2010

British American Tobacco Malaysia acknowledges that tobacco consumption poses real risks to health, so we fully support sensible, effective and orderly regulation of the tobacco industry that meets the preferences of both societal and commercial objectives.

There have been regulatory developments in the form of amendments to the Control of Tobacco Product Regulations 2004 (CTPR 2004), which were announced throughout 2009 and 2010.

Key regulatory requirements which took effect in 2010, were:

- **Prohibition of sales of cigarettes in packs less than 20 sticks**

As of 1 June 2010, all cigarette packs of less than 20 sticks would no longer be allowed for sale in the market.

HIGHLIGHTS

Key regulatory requirements that took effect in 2010:

- *Prohibition of sales of cigarettes in packs less than 20 sticks*
- *Implementation of Minimum Cigarette Pricing*
- *Approval for Retail Selling Price of tobacco products*

• **Implementation of minimum cigarette pricing**

The year 2010 has seen two developments in the implementation of minimum pricing for a pack of 20 sticks of cigarettes.

With effect from 1 January 2010, following the amendments to the CTPR 2004, the minimum cigarette price of 32 cents per stick was introduced. This meant that the price for a pack of 20 sticks of cigarettes was at RM6.40.

With effect from 1 October 2010, the Ministry of Health increased the minimum cigarette price from 32 sen per stick to 35 sen per stick. This means that for a cigarette pack of 20 sticks, the minimum price is now set at RM7.00 per pack. This new minimum cigarette price was adjusted due to the increase in excise announced on 1 October 2010.

• **The approval for Retail Selling Price (RSP) of tobacco products**

Following amendments to the CTPR 2004 in 2010, the Ministry of Health prescribed a new requirement for price approval for the retail selling price of tobacco products, which are as follows:

- All manufacturers and importers are required to submit a written application to the Ministry of Health of the retail selling price of their tobacco products, within 14 days after the date of effect (27 July 2010) of the amended CTPR 2004. A written application must also be submitted to the Ministry of Health for any new tobacco products introduced after that date.
- All manufacturers and importers must also submit an application in writing every time there is a change to the retail selling prices of any tobacco product to the Ministry of Health.
- The Ministry may approve or reject the application of retail selling prices of tobacco products and where the Ministry refuses to grant approval, the Ministry shall notify the manufacturer or importer in writing of the Ministry's refusal.

As a responsible company, British American Tobacco Malaysia is fully compliant with all legislation enacted by the Government governing the manufacturing, marketing and sale of our products.

"Facing different issues and challenges in my work gives me passion to continue doing the work that I do, and to carry through to the best of my abilities."

*Tan Chee Leong,
Secondary Manufacturing
Department Manager*



Global Reporting Initiative (GRI) Indicators

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

In achieving this, the Company took the lead in 2009 to include key Global Reporting Initiative (GRI) Indicators (G3) in its Annual Reporting. Continuing this initiative to provide more comprehensive and concise information, the GRI Indicators have also been incorporated in this report in line with the Company's sustainability agenda.

British American Tobacco Malaysia firmly believes that the disclosure of the GRI Indicators will demonstrate the Company's commitment in walking the talk as a responsible corporate citizen. Further to this, the GRI Indicators form an integral part of the GRI vision whereby the GRI Reporting Guidelines are recommended for organisations to use as a basis for their annual reporting.

For more information on the Global Reporting Initiative, please log on to www.globalreporting.org.

GRI Code	Issue Area	Response for 2010
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	<p>Direct economic value generated (Revenues) – RM3,965 million</p> <p>Economic value distributed: Operating costs – RM882 million Employee wages and benefits – RM148 million Payment to providers of capital – RM710 million</p> <p>Payment to government in the form of taxes – RM2,174 million Community investment – RM2 million Economic value retained – RM49 million</p>
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	British American Tobacco Malaysia has continually implemented measures to reduce its business environment footprint by adopting a multi-pronged approach which encompassed changing employees' behaviour, investing in new technology, improving product designs and practising voluntary carbon off-set through its Afforestation Programme located in FMU No.4, in Ulu Tungud, Sabah.
EC3	Coverage of the organisation's defined benefit plan obligations	British American Tobacco Malaysia contributed an additional 4% into the employees account, in excess of the 12% mandatory employer Employees Provident Fund (EPF) contribution. Altogether, British American Tobacco Malaysia contributed 16% to employees' EPF. Employees contribute 11% to EPF.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	<p>British American Tobacco Malaysia procured from the most competitive supplier offering the highest product quality, regardless of whether it was a local or overseas supplier.</p> <p>British American Tobacco Malaysia practices the Business Enabler Survey Tool (BEST) to select its suppliers. The top 90% of vendors (by volume) were all surveyed using BEST, which covers management policies such as education and training, competency and technological enhancement, safety and regulatory compliances, business ethics and environment responsibility.</p> <p>The proportion of spending on locally based suppliers in 2010 was 75% against 66% in 2009.</p>

GRI Code	Issue Area	Response for 2010
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	British American Tobacco Malaysia hired the most talented personnel, regardless of whether they were local or foreigners. The senior management, defined as the "Top Team" consists of 67% local hire in 2010. Formula $(4 \div 6) \times 100\% = 67\%$
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Please refer to pages 66 to 67 on the British American Tobacco Malaysia Foundation which encompass alleviating hardcore poverty, the Higher Education Starter Kit (HESK), Foundation Scholarships and Employee Volunteer Programme (EVP).
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	A total of 20 British American Tobacco Malaysia Foundation Scholarship recipients completed their higher education in 2010 and were ready to join the highly skilled workforce. In comparison, a total of 21 British American Tobacco Malaysia Foundation scholarship recipients graduated in 2009.
EN1	Materials used by weight or volume	Total materials: 25,068 tonnes Non-renewable materials: 4,087 tonnes <i>(Parts, fuels, cleaning materials, chemicals and processing aids)</i> Direct materials: 20,981 tonnes <i>(Leaf, wrapping, packaging, filter and flavouring)</i> Normalised: 1.46 tonnes/million cigarette equivalent British American Tobacco Malaysia recorded a 21% increase in total materials in 2010. While the Company had reduced its usage of non-renewable materials to 4,087 tonnes (from 4,382 tonnes in 2009), its usage of direct materials increased to 20,981 tonnes (from 16,326 tonnes in 2009) due to increased output.
EN3	Direct energy consumption by primary energy source	Total: 226,830 Gigajoules Non-renewable: 226,830 Gigajoules <i>(Purchased electricity energy, diesel oil, natural gas and liquefied petroleum gas)</i> Renewable: 0 Gigajoules Normalised: 15.79 Gigajoules/million cigarette equivalent A decrease of 2.6% in direct energy consumption was recorded in 2010 from 232,888 Gigajoules in 2009. This was due to various energy conservation initiatives undertaken by British American Tobacco Malaysia.
EN4	Indirect energy consumption by primary source	Total: 295,768 Gigajoules Non-renewable: Electricity – 287,251 Gigajoules Renewable: 8,517 Gigajoules Normalised: 20.6 Gigajoules/million cigarette equivalent A minor increase of 0.24% in indirect energy consumption was recorded in 2010 from 295,053 Gigajoules in 2009. This was due to the additional usage of electricity in the Company's new office building in Petaling Jaya in providing a comfortable working environment for employees.

GRI Code	Issue Area	Response for 2010
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	<p>British American Tobacco Malaysia initiatives:</p> <ol style="list-style-type: none"> 1. Infill Replacement of Chiller unit in Multi Level Storey (MLS) building and Factory C (in Sept 2010) 2. Replacement of 4 AHU in MLS Building – (in June 2010) 3. Vacuum pump automation (in May 2010) 4. Economizers commissioning (in Dec 2009) <p>Estimated recorded reductions:</p> <ol style="list-style-type: none"> 1. Infill replacement for MLS Building and Factory C Chiller unit – monthly savings of 5.18 Gigajoules/1,500 kWh monthly 2. MLS Building AHU (4 units) – monthly savings of 20m³/mth. 3. Vacuum pump automation – monthly savings of 0.03 Gigajoules/MCE (6,300 kWh monthly) 4. Economizers (2 units) – monthly savings of 218.1 Gigajoules/490 mmbtu monthly
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Please refer to GRI G3 Reference EN6.
EN8	Total water withdrawal by source	<p>Total: 230,581 cubic metres</p> <p>Normalised: 16.05 cubic metres/million cigarette equivalent</p> <p>British American Tobacco Malaysia recorded an 11.3% reduction in water withdrawal in comparison to 2009 (260,237 cubic metres) as a result of water recycling and conservation initiatives.</p>
EN9	Water sources significantly affected by withdrawal of water	British American Tobacco Malaysia facilities sourced water from its respective Government authorised state water supplier. The water withdrawal did not affect any of the six sites designated as Ramsar List of Wetlands of International Importance in Malaysia.
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN13	Habitats protected or restored	<p>British American Tobacco Malaysia has participated in an afforestation programme in Forest Management Unit No. 4 located in Ulu Tungud, Sabah since 2002. For the year 2010, a total of 467 hectares of various species of trees were planted, bringing the total hectareage planted to date to 6,467 hectares – the equivalent of 8,859 football fields and the sequestration of 246,845 tonnes of carbon dioxide.</p> <p>*Size of 1 football field is approximately 0.73 hectares.</p> <p>The project partner for this afforestation programme was TSH Resources Berhad.</p>
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Please refer to page 72 on Enhancing our business practices towards sustainable development

GRI Code	Issue Area	Response for 2010
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Information not reported as British American Tobacco Malaysia does not operate near protected areas or areas of high biodiversity value outside protected areas.
EN16	Total direct and indirect green-house gas emissions by weight	Total: 28,370 tonnes of carbon dioxide Normalised: 1.97 tonne/million cigarette equivalent A reduction of 5.24% in direct and indirect green-house gas emissions was recorded in 2010 from 29,940 tonnes of carbon dioxide in 2009 as a result of reduction in business travels.
EN17	Other relevant indirect green-house gas emissions by weight	Total: 19,384 tonnes of carbon dioxide A reduction of 5% in indirect green-house gas emissions was recorded in 2010 from 20,402 tonnes of carbon dioxide in 2009 as a result of reduction in business travels.
EN18	Initiatives to reduce green-house gas emissions and reductions achieved	Please refer to GRI G3 Reference EN6.
EN19	Emissions of ozone-depleting substances by weight	All British American Tobacco Malaysia air conditioning equipments are chlorofluorocarbon (CFC) free.
EN21	Total water discharge by quality and destination	British American Tobacco Malaysia facilities discharged water through these routes: 1. Public waterways (24,025 cubic metres) after the water that was used in factory operations has been treated at our effluent treatment plant to stringent corporate standards. 2. Sewage system, water that has been used for amenities, such as toilets and office pantry (206,556 cubic metres).
EN22	Total weight of waste by type and disposal method	2009 : Hazardous Waste – 34 tonnes : Non-Hazardous Waste – 1,915 tonnes 2010 : Hazardous Waste – 39 tonnes : Non-Hazardous Waste – 1,603 tonnes All our hazardous wastes are sent to Kualiti Alam Facility in Bukit Nanas, Negeri Sembilan for disposal while a majority of our non-hazardous wastes are sent to Recycle Energy Malaysia in Semenyih for conversion to refuse derived fuel pellets. The remainder of our non-hazardous wastes which are not sent to Semenyih are recycled (e.g. paper, plastic and metal materials).
EN23	Total number and volume of significant spills	British American Tobacco Malaysia did not have any significant spills in 2010.
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	Total: 39 tonnes (34 tonnes in 2009) All hazardous wastes were sent to Government approved site (Kualiti Alam Facility) for disposal.

GRI Code	Issue Area	Response for 2010
EN25	Identify, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	British American Tobacco Malaysia treated water that was used in factory operations to meet stringent corporate standards before discharging it into public waterways which are located outside water catchment zones and other protected areas.
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	British American Tobacco Malaysia's comprehensive environment, health and safety programme achieved improvements in minimising its business environment footprint during the year through the implementation of initiatives in the areas of process and practices: <ul style="list-style-type: none"> a. Water usage reduced by 11.4% from 260,237 cubic metres in 2009 to 230,581 cubic metres in 2010; b. Waste generated reduced by 15.7% from 1,949 tonnes in 2009 to 1,642 tonnes in 2010; c. Total energy consumption reduced from 256,818 Gigajoules in 2009 to 236,372 Gigajoules in 2010.
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Information not reported due to a lack of data systems needed to generate the required information. The development of the required data systems will be evaluated.
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	British American Tobacco Malaysia was in full compliance with environmental laws and regulations.
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	There were no significant environmental impacts recorded resulting from transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.
EN30	Total environmental protection expenditures and investments by type	Total: RM191,000 A total of RM131,000 was spent on the replacement/upgrading of the air conditioning system for warehouses and factories, while RM47,000 was spent on the replacement of carbon media for the effluent treatment plant and RM13,000 for the replacement of generator set diesel storage tank.
LA1	Total workforce by employment type, employment contract, and region	Total Workforce: 1,540 Employment type Permanent/Full-time: 1,298 – Management: 602 – Non-Management: 696 Temporary/Consultants/Contracts: 242 British American Tobacco Malaysia's workforce broken down by regions: <ul style="list-style-type: none"> a. North = 277 b. South = 187 c. East Coast = 105 d. East Malaysia = 127 e. Central = 844

GRI Code	Issue Area	Response for 2010
LA2	Total number and rate of employee turnover by age group, gender and region	<p>As at 31 December 2010:</p> <p>The total number of employees who left employment in 2010 by age group:</p> <ol style="list-style-type: none"> less than 30 years old = 83 30-50 years old = 148 above 50 years old = 18 <p>The total number of employees who left employment in 2010 by gender:</p> <ol style="list-style-type: none"> Male = 211 Female = 38 <p>The total number of employees who left employment in 2010 by region:</p> <ol style="list-style-type: none"> East Coast = 3 North = 69 South = 76 East Malaysia = 17 Central = 84
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	<p>The following benefits were provided to British American Tobacco Malaysia's fulltime management and non-management employees:</p> <ol style="list-style-type: none"> medical benefits cigarette ration free meals annual, calamity, compassionate, examination, hospitalisation, maternity, paternity, marriage, sick, study, sports and pilgrimage leave bonus Group Personal Accident Insurance Group Life Term Insurance Scheme company vehicle and monthly cash allowance (depending on grade) corporate club membership (depending on grade) housing loan interest subsidy (depending on grade) car loan interest subsidy (depending on grade)

GRI Code	Issue Area	Response for 2010
LA4	Percentage of employees covered by collective bargaining agreements	<p>The percentage of total employees covered by collective bargaining agreements is 24%. All eligible employees amounting to 698 non-management staff were covered by the Collective Agreement, effective from 1st July 2004 to 30th June 2007 ("Collective Agreement").</p> <p>In October 2007, the Director General of the Trade Unions (DGTU) of the Ministry of Human Resources had decided that British American Tobacco Employees Union (BATEU) could only represent employees of the holding company, British American Tobacco (Malaysia) Berhad. The Ex General Secretary of BATEU (an employee of Tobacco Importers and Manufacturers Sdn. Bhd. (TIM)) had filed a judicial review on behalf of BATEU in the High Court challenging the decision of the DGTU. In July 2010, the High Court has set aside the Judicial Review application made by BATEU and BATEU has made an appeal to the Court of Appeal. This is now pending the decision of the Court of Appeal.</p> <p>Pending the outcome of the judicial review, the decision of the DGTU stands. Hence, employees from British American Tobacco Malaysia's subsidiary companies, TIM and Commercial Marketers and Distributors Sdn. Bhd. (CMD) cannot be represented by BATEU and would have to form their respective unions.</p> <p>Notwithstanding the DGTU's decision, all the terms and conditions of the Collective Agreement have been honoured by British American Tobacco (Malaysia) Berhad and duly extended to the employees of TIM and CMD on a Personal To Holder (PTH) basis pending their respective Collective Agreements.</p>
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	<p>The minimum notice period for retrenchment was not less than 3 months. The notice period was specified in Article 61 of the Collective Agreement between British American Tobacco Malaysia and British American Tobacco Employees Union (BATEU), effective from 1st July 2004 to 30 June 2007.</p> <p>(Please refer to LA4 on judicial review filed on behalf of BATEU)</p>
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	<p>100% of the total workforce was represented by a Senior Manager representing each function in our Corporate Environmental Health and Safety Committee.</p> <p>Six representatives (from management and non-management employees respectively) were members of the Petaling Jaya EHS Committee. This committee is headed by a chairman (Head of Production) and also includes representatives from Occupational Health, Security and an appointed Secretary (EHS Manager).</p>
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region	<p>British American Tobacco Malaysia lost workday case injury incidence rate (LWCIR) for 2010 was two lost workday cases per 2,693,298 (Estimated based on 11 months in 2010) manhours worked by its employees.</p> <p>The two lost workday case accidents (LWC) reported during the year were accidents involving employees driving company vehicles.</p> <p>By comparison, in 2009 there were three lost workday cases reported during the year of which two of them were accidents involving employees driving company vehicles and the other accident was an industrial accident which occurred in the Petaling Jaya factory.</p>

GRI Code	Issue Area	Response for 2010								
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases		Education/ Training		Counselling		Prevention/ Risk Control		Treatment	
		Programme recipients	Yes	No	Yes	No	Yes	No	Yes	No
		Workers	✓		✓		✓		✓	
		Workers' families		✓	✓		✓		✓	
		Community members		✓		✓		✓		
		For Workers:								
		Education/Training								
		a. First Aid CPR Training								
		b. Ergonomics								
		c. Noise Conservation Programme								
d. Cough Etiquettes and Importance of Hand Washing										
Counselling										
a. Chronic Diseases										
b. Sickness Absenteeism										
c. Overseas Travel										
Prevention/Risk Control										
a. Immunisations										
b. Updates on infectious diseases OPUS, Notice Boards, LN										
c. Women Wellness Programmes										
d. Routine – Annual/Biennial medical examinations										
e. Coronary care										
f. Statutory medical examinations										
g. Creating awareness on HIV/AIDS										
h. Vaccinations against Hepatitis A, Hepatitis B, Influenza, Yellow Fever, Tetanus Toxoid, seasonal flu										
i. Updates on dengue and haze alert										
j. Provision of hand sanitisers and face masks and notice of precautions for overseas travel in light of the AH1N1 epidemic										
k. Chemical Hazardous Regulation Act Surveillance (CHRA)										
Treatment										
a. Medications for Daily Sickness Report										
b. Medications for chronic diseases										
c. Investigations										
d. Referral to Specialists										
For Workers' family:										
Education/Training										
a. On adhoc basis										
Counselling										
a. On adhoc basis										
b. On confidentiality basis										
Prevention/Risk Control										
a. Vaccination against H1N1										
b. Vaccination against seasonal flu										
Treatment										
a. Clinic/Hospitalisation										
b. Medications										

GRI Code	Issue Area	Response for 2010
LA9	Health and safety topics covered in formal agreements with trade unions	<p>Environment, health and safety topics were covered in a formal agreement which was specified in various articles contained in the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007. ("Collective Agreement")</p> <p>Articles 20-23 cover employees maximum working hours, Article 27, 30-31 cover employees' leave entitlement and Article 40 covers employees' entitlement to appropriate personal protective equipment while at work. Article 54 states that the Company's working environment is to be in compliance with relevant regulations including providing for medical examination for employees.</p>
LA10	Average hours of training per year per employee by employee category	<p>Management 3.39 hours <u>Management attendee</u> Central programmes: 8.93 hours Functional programmes: Operations – 1.94 hours Marketing – 0 hours</p> <p>Non-management 8.91 hours <u>Non-management attendee</u> Central programme: 14 hours Functional programmes: Operations – 8.71 hours Marketing – 14.61 hours</p> <p>The central programmes were under the purview of British American Tobacco Malaysia's Human Resources Department and covered all other functions within the Company with the exception of Operations and Marketing, as these two functions conduct their individual functional programmes.</p> <p>However, the Marketing management employee programmes were conducted at a central level in 2010 instead of at a functional level, hence the record of nil for Marketing management employees.</p>
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	<p>British American Tobacco Malaysia provided assistance to employees who have been terminated via its career transition or outplacement programme. Plans for restructuring were communicated to the relevant Labour Authorities (i.e. Director General of Industrial Relations and Director General of Labour) and briefing sessions were conducted to employees communicating the business rationale for restructuring and details of the outplacement programme itself. This programme was a collaboration between British American Tobacco Malaysia and CareerSolutions Asia Sdn. Bhd., which provided counselling to affected employees and carried out a transition skills programme.</p>
LA12	Percentage of employees receiving regular performance and career development reviews	<p>100% of employees, both management and non-management staff, received a formal performance appraisal and review during the reporting period.</p>

GRI Code	Issue Area	Response for 2010
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	<p>The percentage of British American Tobacco Malaysia's Board of Directors by gender: Male = 100% Female = 0%</p> <p>The percentage of British American Tobacco Malaysia's Board of Directors by age groups: Under 30 years old = 0% 30-50 years old = 14% Over 50 years old = 86%</p> <p>The percentage of employees in British American Tobacco Malaysia by gender: Male = 86% Female = 14%</p> <p>The percentage of employees in British American Tobacco Malaysia by age groups: Under 30 years old = 23% 30-50 years old = 66% Over 50 years old = 11%</p>
LA14	Ratio of basic salary of men to women by employee category	<p>Male and female employees of the same grade shared the same salary scale, but their starting salary might differ based on talent, experience and skills set.</p> <p>Male and female Management Trainees were paid equal basic salaries.</p>
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	<p>British American Tobacco Malaysia's significant investments were with its suppliers. Our philosophy on supplier partnership was not just about procurement but how we could increase value in the supply chain. We use the Business Enabler Survey Tool (BEST) to select the best supplier based on high operation standards including consideration of human rights aspects such as a safe working environment, good labour relations, provision of education and training, regulatory compliances, business ethics and environment, health and safety responsibility. The top 90% of vendors (by volume) were all surveyed using BEST.</p> <p>Other significant investments also included the contracts we have with tobacco leaf farmers. Our contracts cover good agricultural practices, appropriate use of agrochemicals, environmental, occupational health and safety and termination of contracts should farmers be employing child labour.</p>
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Please refer to GRI G3 Reference HR1
HR4	Total number of incidents of discrimination and actions taken	<p>There were no incidences of discrimination reported to British American Tobacco Malaysia. We also have a grievance procedure under Article 5 of the Collective Agreement between British American Tobacco Malaysia Berhad and British American Tobacco Malaysia Employees Union (BATEU), effective from 1st July 2004 to 30th June 2007, for non-management employees to escalate matters of discrimination to senior management.</p> <p>In addition, our Standards of Business Conduct provides for a comprehensive whistleblowing procedure which enables any employee to raise any concern including that of discrimination. Our code of practise on sexual harassment protects employees from gender discrimination.</p>

GRI Code	Issue Area	Response for 2010
HR5	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights	<p>In 2007, the Malaysian Trade Union Congress made a complaint on behalf of the British American Tobacco Employees' Union, to the United Kingdom's OECD National Contact Point (UK NCP), alleging the reclassification of roles to reduce union membership and also insufficient prior consultation with the union then on the reclassifications.</p> <p>In December 2010, the UK NCP determined it would not examine the said primary allegation of reclassification of roles to reduce union membership as it could not examine the rulings made by the relevant authorities on the matter under Malaysian laws without expressing a view on the legal merits of the alleged acts. The risk of reaching different conclusions from those reached by the relevant Malaysian authorities would be the effect of purporting to override Malaysian laws or of placing British American Tobacco Malaysia Berhad in a situation where it faced a conflict between the requirements of the UK NCP's conclusions and Malaysian laws.</p> <p>However, it examined the secondary allegation of insufficient prior consultation on the reclassification and is of the view that British American Tobacco Malaysia did not adequately meet the OECD's standards of employment under Chapter IV(8) of the OECD Guidelines for Multinational Enterprises.</p> <p>The UK NCP has recommended that British American Tobacco Malaysia Berhad review their policies and practices to include a process on consulting and informing its employees on matters of mutual concern before key decisions are made on those matters and to provide an update to the UK NCP by May 2011.</p> <p>In respect of the abovementioned allegations, the Company had at all times complied with all relevant legal requirements governing the matters and demonstrated commitment to good employment practices.</p>
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of child labour, as it was not under its direct employment.</p> <p>To mitigate this risk, the Company has gone into an agreement with the local leaf suppliers as part of our Social Responsibility in Tobacco Production (SRTP) to ensure that no child labour was used to perform activities related to tobacco production. Any breach of the terms and conditions of the agreement would result in a cease in supplies to the Company.</p>
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	Please refer to GRI G3 Reference HR6
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	There was no formalised training specifically on human rights issues provided to security personnel. The focus of their responsibilities was to ensure a safe and secure working environment for employees and the core need to treat every individual with respect in the execution of their duties.

GRI Code	Issue Area	Response for 2010
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	<p>British American Tobacco Malaysia has identified its leaf supply as at risk for incidents of compulsory/forced labour, as it was not under our direct employment.</p> <p>To mitigate this risk, British American Tobacco Malaysia's Employment Principles builds on its commitment to good employment practices and workplace related human rights. It sets out a common approach to the development of policies and procedures, while recognising that we must take account of local labour laws and practices and the local political, economic and cultural context. Topics covered by our Employment Principles include:</p> <ul style="list-style-type: none"> a. equality of opportunity and non-discrimination; b. internal communications and the free flow of ideas; c. worker representation and freedom of association; d. fairness at work and the unacceptability of harassment and bullying; e. do not condone or employ child labour; f. forced or bonded labour is completely unacceptable; g. performance responsibility; h. health, safety and environmental responsibility; i. community contributions and skills development for employees and communities in markets where our companies operate; j. personal development and learning; k. reasonable working hours and family friendly policies; l. fair, clear and competitive remuneration and benefits.
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	British American Tobacco Malaysia aimed to address the social and environmental issues associated with tobacco growing and processing by guiding tobacco farmers on good agricultural practices, the appropriate use of agrochemicals and consideration for environmental, occupational health and safety issues. We were also active in eliminating exploitative child labour and promoting afforestation initiatives.
SO2	Percentage and total number of business units analysed for risks related to corruption	Please refer to page 92 on Standards of Business Conduct.
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	30 personnel underwent induction programmes throughout 2010 and were informed about British American Tobacco Malaysia's Standards of Business Conduct (SOBC) which included information about anti corruption and bribery.
SO4	Actions taken in response to incidents of corruption	There were no incidences of corruption reported to British American Tobacco Malaysia.

GRI Code	Issue Area	Response for 2010
SO5	Public policy positions and participation in public policy development and lobbying	<p>As a responsible company, British American Tobacco Malaysia believes that we can contribute, through information and ideas to help regulators address the key issues surrounding our product.</p> <p>In 2010, we undertook the following:</p> <ul style="list-style-type: none"> • Distribution of information leaflets in Bahasa Malaysia and Chinese to approximately 80,000 retailers nationwide that explained the types of illegal cigarettes, laws and penalties related to illicit tobacco trade as well as key indicators of genuine cigarettes. • Distribution of information leaflets in Bahasa Malaysia and Chinese to approximately 80,000 retailers on the minimum price of cigarettes and the removal of cigarette packs below 20 sticks. • Presentation at the Inter Ministerial Task Force and to other Government agencies such as Royal Malaysian Customs on the results of the Illicit Cigarette Survey in Malaysia and the issues affecting the industry. • Discussion with National Kenaf and Tobacco Board on leaf issues, of which the Company's Head of Leaf is a member. <p>At a global level, these and other issues and our core positions with regards to public policy development can be found on www.bat.com</p>
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	<p>There were no legal actions against British American Tobacco Malaysia for anti-competitive behavior, anti-trust, and monopoly practices.</p> <p>British American Tobacco Malaysia's Standard of Business Conduct (SOBC) embeds the principles of fair competition rules in conducting our business. In addition, British American Tobacco Malaysia's Competition Guidelines which was rolled out company wide on 18 June 2009 also ensures that our business activities are not in any manner anti competitive. Internal training on the Competition Guidelines was conducted in July 2009 to all managers within the company and was subsequently extended to the sales force on 22-25 February 2010.</p> <p>The Company's board of directors and legal personnel also underwent external training workshops on the Malaysian Competition Act 2010 to reinforce that British American Tobacco Malaysia's Competition Guidelines are consistent with the requirements under the law.</p>
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	<p>There were no significant fines or any non-monetary sanctions imposed on British American Tobacco Malaysia.</p>
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	<p>Please refer to information on smoking and health which can be found on our website at www.bat.com. Information on tobacco ingredients can be found on www.bat-ingredients.com.</p> <p>British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.</p> <p>The Company also went into an agreement with the local leaf suppliers as part of the Social Responsibility in Tobacco Production (SRTP) to ensure that there was appropriate utilisation of agrochemicals with respect to the environment and operator safety. Therefore, where agrochemicals were deemed necessary, selection and usage adhered to the relevant British American Tobacco Agrochemical Procedures that included the selection of approved chemicals.</p>

GRI Code	Issue Area	Response for 2010																					
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.																					
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	<table border="1"> <thead> <tr> <th></th><th colspan="2">2010</th></tr> <tr> <th></th><th>Yes</th><th>No</th></tr> </thead> <tbody> <tr> <td>The sourcing of components of the product or service</td><td></td><td>✓</td></tr> <tr> <td>Content, particularly with regard to substances that might produce an environmental or social impact</td><td>✓</td><td></td></tr> <tr> <td>Safe use of the product or service</td><td>✓</td><td></td></tr> <tr> <td>Disposal of the product and environmental/social impacts</td><td></td><td>✓</td></tr> <tr> <td>Other (explain)</td><td>N.A</td><td>N.A</td></tr> </tbody> </table> <p>In 2010, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.</p>		2010			Yes	No	The sourcing of components of the product or service		✓	Content, particularly with regard to substances that might produce an environmental or social impact	✓		Safe use of the product or service	✓		Disposal of the product and environmental/social impacts		✓	Other (explain)	N.A	N.A
	2010																						
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The sourcing of components of the product or service		✓																					
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Disposal of the product and environmental/social impacts		✓																					
Other (explain)	N.A	N.A																					
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	In 2010, British American Tobacco Malaysia was in full compliance with the Control of Tobacco Product Regulations 2004 which required health warnings and further textual warnings and/or labeling requirements on every cigarette pack.																					
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	<p>The Control of Tobacco Product Regulations (CTPR) 2004 regulates the tobacco industry in terms of prohibition of tobacco product advertisement, regulation on the sale of tobacco products, labeling and packaging requirements among others.</p> <p>Compliance with the regulations was further enhanced by British American Tobacco Malaysia's adherence to the British American Tobacco International Marketing Standards (IMS) which embodies in detail our commitment to marketing appropriately and only to adult smokers. The Standards aim to 'raise the bar' by establishing a benchmark for the industry worldwide and in some countries they are stricter than local laws.</p> <p>The British American Tobacco International Tobacco Products Marketing Standards were updated on 1 July 2007 (currently IMS 2) and a yearly refresher course is conducted to brief the Marketing Department and their relevant agencies on the Standards.</p>																					
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	There were no incidents of non-compliance with regulations concerning marketing communications.																					

GRI Code	Issue Area	Response for 2010
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	<p>No complaints were received.</p> <p>British American Tobacco Malaysia worked with reputable market research business partners who adhere to the ESOMAR* code of conduct, in which the privacy of respondents' information is strictly protected. This is enshrined in Article 7 of the ICC/ESOMAR International Code of Market and Social Research.</p> <p><i>* ESOMAR is an industry standard in conducting market research.</i></p>
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	British American Tobacco Malaysia's products were in full compliance with the Control of Tobacco Product Regulations 2004.

STANDARDS OF BUSINESS CONDUCT

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

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

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

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

The areas covered by the Standards are:

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

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

STATEMENT ON CORPORATE GOVERNANCE

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

Throughout the years, the Company and the Board are committed in ensuring that the Group's business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct. This is evident in its internal standards, processes, guidelines and systems, which are aligned with the aforementioned corporate governance doctrine and principles.

The Company and its Board are cognizant that poor governance undermines corporate integrity and can potentially lead to fraud incidences, thus exposing the Company to risk. Hence, the Board will continuously review and enhance the Company's governance practices to safeguard the best interests of shareholders and other stakeholders.

The Company's corporate governance structure has been built and enhanced based on the following principles and best practices:

- (i) Malaysian Code on Corporate Governance (Revised 2007) (Malaysian Code);
- (ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements);
- (iii) Corporate Governance Guide: Toward Boardroom Excellence of Bursa Malaysia Securities Berhad (CG Guide);
- (iv) British American Tobacco Malaysia's Code of Corporate Governance (BATM Code);
- (v) Standards of Business Conduct (Standards);
- (vi) Statement of Business Principles (Business Principles); and
- (vii) Statement of Delegated Authorities.

In addition to the above, the Company also benchmarked its corporate governance practices against the Minority Shareholder Watchdog Group (MSWG) Corporate Governance Scorecard to ensure that its practices are in line with best practices and are capable of meeting the challenges of the future.

The BATM Code is developed based on the principles and best practices set out in the Malaysian Code and globally recognised best governance practices. Such principles and best practices are applied throughout the Group.

The Standards governs the conduct of all employees of the Company including the Board. Examples of provisions in the Standards are, avoiding situations where there are conflicts of interest, interest in competing businesses, prohibition on use of inside information, corporate opportunities, insider dealing, whistle blowing and no corrupt activities. The Standards is constantly reviewed by the Board from time to time to ensure that the Standards remains at the forefront of best business practices. The Group and every employee including the Directors are expected to live up to the Standards and are required to confirm their commitment and compliance by executing a declaration of compliance annually.

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

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

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

Apart from the Business Principles and Standards, the Company also has in place other internal policies and guidelines to ensure good corporate governance. Such internal policies, standards and guidelines include amongst others, the Indirect Procurement Policy (Procurement Policy) and Code of Practice on Sexual Harassment (BATM Sexual Harassment Code).

The Procurement Policy sets out the framework for indirect procurement by the Company and outlines the processes for obtaining the best overall value and quality for each amount spent and to ensure timely delivery of goods and services to meet the Group's business requirements. The Tender Committee of the Company which includes Executive Directors on the Board and senior management reviews the recommendation of the stakeholders and approves the tenders submitted after due consideration. The Procurement Policy is also made available to our employees and Directors on our Company's intranet.

The BATM Sexual Harassment Code was introduced in 2004 as part of the Company's commitment in providing a work environment which encourages creativity, productivity and the fullest development of its diverse human resources in line with its Guiding Principles. It is the policy of the Company to ensure that all employees are treated with respect and dignity to their gender status. The Company will not tolerate any form of sexual harassment which disrupts or interferes with the work performance and dignity of another. This policy applies to both male and female employees of the Group. The BATM Sexual Harassment Code is aligned with the best practices as laid out in the Code of Practice on the Prevention and Eradication of Sexual Harassment in the Workplace, established by the Ministry of Human Resources, Malaysia and the recent proposed amendment to the Employment Act 1955 to insert a new Part XVA to provide

for the establishment of processes for dealing with complaints on sexual harassment and inquiry into such complaints. The BATM Sexual Harassment Code is also made available to our employees and Directors on our Company's intranet.

Also, as part of the Company's initiative to further enhance its Environment, Health and Safety practices and to eliminate or minimise accident rate to protect human capital and the assets of the Company, the Company had developed and implemented the Company Vehicle Accident and Theft Reporting Procedures. The Procedures sets out clear reporting procedures including the roles and responsibilities of relevant parties in the Company upon the occurrence of any incidents involving company motor vehicles. The Procedures is also made available to our employees and Directors on our Company's intranet.

Aside from the abovementioned policies and procedures, other internal control policies, standards and guidelines such as British American Tobacco International Marketing Standards, Employment Principles, and the Environment, Health and Safety Policy which the Company abides to in the running of its business can similarly be obtained from our corporate website.

The Group's commitment and dedication in managing its business responsibly amidst a challenging environment for the tobacco industry is evident from the following awards and accolades that the Company had received:

Annual Reporting

- **Consumer Products Category in the National Annual Corporate Report Awards (NACRA) 2010**

The Company received for the ninth consecutive year (2002 to 2010), an Industry Excellence Award in the Consumer Products category.

- **Silver Award in the Best Design Annual Report Category for the NACRA 2010**

The Company was also awarded the Silver Award in the Best Design Annual Report category.

Corporate Social Responsibility

• Asian Sustainability Rating

The Company was ranked as the 17th Best Company in Asia for Sustainability Disclosure in Corporate Social Responsibility Asia's Annual Asian Sustainability Rating. The Company was rated among 542 companies across ten countries surveyed in Asia and was one of the four Malaysian companies included in the rating which is based on a set of 100 sustainability indicators. These indicators are split into four categories: General and Environment, Social and Governance.

• 2009 FinanceAsia Awards Poll

The Company was ranked third place for the Best Corporate Social Responsibility in the FinanceAsia Awards Poll in 2009. FinanceAsia assessed Asian companies on their overall management, corporate governance, investor relations and their commitment to strong dividend payments. This is the first time the Company has been accorded the recognition.

Corporate Governance

• The MSWG Malaysian Corporate Governance Index 2010 Awards

The Company received a Distinction Award as recognition for its high standards of corporate governance. The MSWG Malaysian Corporate Governance Index 2010 had rated the top 100 public listed companies in terms of corporate governance practices including international best practices codes. The Company had constantly been ranked amongst the top ten companies for three consecutive years from 2007 to 2009.

• The Asset's Corporate Governance Awards 2010

The Company was awarded the Gold Award for Environmental and Investor relations for two consecutive years from 2009 to 2010 in The Asset's Corporate Governance Awards 2010. The Asset is a financial business magazine for financial industry in Asia with a high circulation rate within the community of leading corporate and financial decision makers in Asia.

• 2009 FinanceAsia Awards Poll

The Company was ranked third place for the Best Corporate Governance, an improvement from its previous ranking of sixth place in the 2008 FinanceAsia Awards Poll. Further, the Company was also ranked fourth place

for the Best Managed Company in the same awards poll. FinanceAsia assessed Asian companies on their overall management, corporate governance, investor relations and their commitment to strong dividend payments.

Shareholder Value

• KPMG Shareholder Value Awards 2010

The Company was named the Overall Award Winner and also the Consumer Market Sector Award Winner of the KPMG Shareholder Value Awards 2010 for the eighth consecutive year since the inception of this award in 2002. Other than British American Tobacco Malaysia, no other company had ever been named the Overall Award Winner. This is a true testament to the Company's commitment to maximise and deliver long term shareholder value.

• 2009 FinanceAsia Awards Poll

The Company was ranked second place for Most Committed to Strong Dividend Policy and fourth place in the Best Investor Relations in the 2009 FinanceAsia Awards Poll.

• The Edge Billion Ringgit Club Corporate Awards 2010

The Company was admitted as a member to The Edge Billion Ringgit Club (BRC) and was recognised for achieving the highest return on equity in consumer products sector. The Edge BRC awards are to honour companies listed on Bursa Malaysia with at least RM1 billion in market capitalisation or an annual turnover of at least RM1 billion for the financial year 2009.

The Company and the Board will continue to strengthen and enhance its corporate governance principles and best practices to safeguard the best interests of shareholders and other stakeholders. The Company had fully complied with the abovementioned corporate governance principles and best practices. This Statement together with the Statement on Internal Control and Report on Corporate Risk Management sets out the manner in which the Company had applied the Company's corporate governance principles and best practices.

Board of Directors

Board Composition

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

The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise. As at 31 December 2010, the Board consists of seven members, four of which are Non-Executive Directors (including the Chairman) and the remaining three are Executive Directors. Three out of the four Non-Executive Directors are Independent Non-Executive Directors.

As at 31 December 2010, the members of the Board are as follows:

Tan Sri Abu Talib bin Othman

Independent Non-Executive Director
(Chairman)

Datuk Oh Chong Peng

Independent Non-Executive Director

Dato' Ahmad Johari bin Tun Abdul Razak

Independent Non-Executive Director

James Richard Suttie

Non-Independent Non-Executive Director

William Toh Ah Wah

Executive Director
(Managing Director)

Stephen James Rush

Executive Director
(Finance Director)

Dato' Chan Choon Ngai

Executive Director
(Operations Director)
(Retired on 31 December 2010 and subsequently appointed on 1 February 2011)

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

The Chairman of the Board, Tan Sri Abu Talib had served the Government for more than 30 years and held various positions including the position of the Attorney-General of Malaysia. He also served as Chairman of Suruhanjaya Hak Asasi Manusia (Suhakam) from 2002 to 2010, a human rights commission in Malaysia to promote awareness and provide human rights education. His extensive experience and knowledge has enhanced his role as the Chairman of the Company to provide informed and lucid approach to challenging tobacco industry issues and key business issues so as to ensure that all decisions made by the Board take into account the interest of the Group and its stakeholders.

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

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

For details of the Directors' profiles and their respective memberships, please refer to pages 38 to 41 of this Annual Report.

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

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

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

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

Principal Responsibilities of the Board

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

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

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

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

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

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

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

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

Top Team

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

- (i) Managing Director;
- (ii) Finance Director;
- (iii) Marketing Director;
- (iv) Operations Director;
- (v) Corporate and Legal Affairs Director;
- (vi) Human Resources Director; and
- (vii) Business Development Services Director.

For details of each Top Team member, please refer to pages 42 to 45 of this Annual Report.

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

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

Company Secretary

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

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

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

Board Meetings

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

The Board and Board Committees meetings are scheduled in the third quarter of the preceding year so as to enable the Directors to plan ahead and ensure that the Board and the Board Committees meetings are booked in their respective schedules.

During the 12 months ended 31 December 2010, five Board Meetings were held.

The following table provides the attendance of the Directors at Board meetings held in 2010:

	Attendance at Meeting
Tan Sri Abu Talib bin Othman Independent Non-Executive Director (Chairman)	5/5
Datuk Oh Chong Peng Independent Non-Executive Director	5/5
Dato' Ahmad Johari bin Tun Abdul Razak Independent Non-Executive Director	5/5
James Richard Suttie Non-Independent Non-Executive Director	5/5
William Toh Ah Wah Non-Independent Executive Director (Managing Director)	4/5
Stephen James Rush Non-Independent Executive Director (Finance Director)	5/5
Dato' Chan Choon Ngai¹ Non-Independent Executive Director (Operations Director)	5/5

Note:

1. Dato' Chan Choon Ngai retired on 31 December 2010 pursuant to the Company's retirement policy after attaining the age of 55 and was subsequently appointed as Non-Independent Executive Director of the Company on 1 February 2011.

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

Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolution between scheduled and special meetings. In 2010, ten resolutions were approved by the Directors via Circular Resolutions.

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

In 2010, amongst the key issues presented for consideration by the Board were:

- Managing Director's Quarterly Reports;
- Quarterly Unaudited Consolidated Results;
- Company Plan for 2009-2010;
- Recurrent Related Parties Transactions' Quarterly Reports;
- Amendments to the Executive Compensation Committee's Terms of Reference;
- Directors' Performance Evaluation 2009;
- All announcements released to Bursa Malaysia Securities Berhad;
- Company's Corporate Social Responsibilities activities;
- Company's Enterprise Risk Management programme;
- Company's Annual Report (which includes the Statement on Corporate Governance, Statement on Internal Control, Audit Committee Report and Corporate Social Responsibility Committee's Report); and
- Company's Audited Financial Statements.

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

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

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

Board Committees and Sub-Committees

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

To promote the smooth running of the Board Committees, each Board Committee shall adhere to the clear terms of reference which had been approved by the Board and set out in the BATM Code. All Board Committees have their roles/functions, written terms of reference, operating procedures and authorities clearly defined. The Board reviews the Board Committees' authority and terms of reference from time to time. In April 2010, upon the recommendation of the Remuneration Committee, the Board considered and approved the amendments to the Executive Compensation Committee's (ECC) terms of reference to revise the composition of the ECC and to provide further clarity on the role and responsibilities of the ECC. The composition of the ECC was amended to include the appointment of a Non-Executive Director as the Chairman of the ECC. Previously the Chairman of the ECC was the Managing Director of the Company. Pursuant to the amendment, the Chairman of the Company who is an Independent Non-Executive Director was appointed as the Chairman of ECC in 2010.

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

The composition of the Board Committees as at 31 December 2010 and the attendance of the members at the Board Committees meetings held in 2010 are as follows:

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

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

Board Committees

1. Audit Committee

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

As at the date of this Statement, the Audit Committee comprises four Directors. All members of the Audit Committee are Non-Executive Directors, where three of the four members are Independent Non-Executive Directors.

All members of the Audit Committee are financially literate as defined by the Malaysian Code and the Chairman, Datuk Oh Chong Peng fulfills the financial expertise requisite of the Listing Requirements. Datuk Oh Chong Peng is a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants, England and Wales.

a. Authority

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

The Audit Committee had met with management and the internal and external auditors to review the effectiveness of internal controls and business risk management, and receive reports from the Group's Regional Audit Committee. The Committee had reviewed compliance with the Standards and procedures in place within the Group for the management of its business policies. The Audit Committee has given detailed consideration to business risks arising in the context of the Group's treasury operations, its information technology systems and the threat to the Group's business posed by illicit trade, and reviewed the specific controls in place within the Group to address such risks. The Audit Committee has

satisfied itself by means of these steps that proper and satisfactory internal control systems remain in place to identify and contain business risks, and that the Group's business is being conducted in a proper and economically sound manner.

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

The Audit Committee had reviewed and discussed the Audited Financial Statements as at 31 December 2010 audited by Messrs. PricewaterhouseCoopers and recommended to the Board on 22 February 2011, that the Audited Financial Statements as at 31 December 2010 be included in the Company's Annual Report 2010.

The Board of Directors had on 22 February 2011 approved the aforesaid Audited Financial Statements for inclusion in the Company's Annual Report 2010 and filed with the Bursa Malaysia Securities Berhad, Securities Commission and Companies Commission of Malaysia.

b. Meetings

The Managing Director, Finance Director, Internal Audit Manager and representatives of the external auditors attend meetings of the Audit Committee. The Audit Committee had met four times during 2010 and twice in 2010 with the external auditors without the presence of the Executive Directors or management.

No member of the Audit Committee, save and except the Chairman of the Audit Committee, received any payments in 2010 from the Group other than the fees which had been received as a Non-Executive Director of the Company and allowances for attendance at meetings. The Chairman of the Audit Committee receives an annual fixed fee for his chairmanship of the Audit Committee.

For details on the function, composition, membership and summary of activities of the Audit Committee in 2010, please refer to pages 122 to 125 of this Annual Report.

2. Nomination Committee

The Nomination Committee comprises exclusively of Non-Executive Directors, where two of the three members are Independent Non-Executive Directors.

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

Meetings of the Nomination Committee are held at least once a year and as and when required. The Nomination Committee met once during the financial year ended 31 December 2010.

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

a. Authority

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

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

b. Meetings

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

In accordance with the Company's Articles of Association (Articles), at least one-third of the Directors shall retire from office at each Annual General Meeting. Retiring Directors can offer themselves for re-election. In February 2010, the Nomination Committee recommended to the Board for the re-appointment of Mr. Stephen James Rush and Dato' Chan Choon Ngai, who were subsequently re-elected as Directors of the Company at the Annual General Meeting on 20 April 2010.

Further, the Nomination Committee also recommended to the Board for the re-appointment of Tan Sri Abu Talib Bin Othman who retired pursuant to Section 129(2) of the Companies Act, 1965. Tan Sri Abu Talib Bin Othman was subsequently re-appointed as Director of the Company at the Annual General Meeting on 20 April 2010.

3. Remuneration Committee

The Remuneration Committee comprises four Directors who are mainly Non-Executive Directors. two of the three Non-Executive Directors in the Remuneration Committee are Independent Non-Executive Directors. The Managing Director is one of the four Directors in the Remuneration Committee. The presence of the Managing Director in the Remuneration Committee is required as the Managing Director in consultation with the Chairman of the Company shall recommend to the Board the fees payable to Non-Executive Directors as set forth in the BATM Code.

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

The objectives of the Remuneration Committee in determining the levels and components of remuneration packages are to attract, motivate and retain talented and dedicated Executive Directors and members of the Top Team. In their determination, the Remuneration Committee takes into consideration levels comparable to those of key senior management in other benchmarked companies. For other employees of the Group, the Board has delegated and empowered the Executive Compensation Committee to ensure that remuneration packages are such as to attract, motivate and retain talented and dedicated employees, at least comparable to those employees in other benchmarked companies.

The Remuneration Committee meets at least once a year and during the financial year ended 31 December 2010, the Remuneration Committee had met three times. Amongst the items deliberated by the Remuneration Committee in 2010 were the annual bonus and salary increment for the Executive Directors and Top Team, amendments to the Company's Human Resources Policies and Procedures, remuneration packages of the new Marketing Director and amendments to the Executive Compensation Committee's Terms of Reference.

a. Authority

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

- To recommend to the Board the Company's policy framework on the terms of employment of the Executive Directors and members of the Top Team;
- To recommend to the Board on all elements of remuneration and compensation payments of the Executive Directors and members of the Top Team;

- To review and approve the annual bonus and salary increments of the Executive Directors and members of the Top Team; and
- To review and recommend to the Board the remuneration of the Non-Executive Directors.

b. Meetings and Minutes

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

Sub-Committees

1. Executive Compensation Committee (ECC)

The ECC comprises the following:-

- Non-Executive Director of the Company;
- British American Tobacco p.l.c's Asia Pacific Regional Director or British American Tobacco p.l.c's Asia Pacific Regional Head of Human Resources;
- British American Tobacco p.l.c's Asia Pacific Regional Head of Rewards;
- Managing Director of the Company; and
- Finance Director of the Company.

The Non-Executive Director of the Company is the Chairman of the ECC and the Human Resources Director of the Company acts as the Secretary of the ECC.

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

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

a. Authority

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

- to review and approve all elements of remuneration, compensation payments, bonuses, rewards and benefits which include inter alia the elements set out below, save and except salaries of employees in the Group which are reviewed and approved by the relevant Head of Functions with the Human Resources Director:-
 - (i) to ensure that the Group remuneration systems offer the opportunity of excellent reward for excellent performance;
 - (ii) to examine reward packages as a whole, seeking overall competitiveness rather than item by item comparability based on the market and affordability;
 - (iii) to review the individual components of the total reward package to determine, via employees and market trends, the benefit value of each element and adjust the package to achieve the greatest perceived value for cost;
 - (iv) to establish an appropriate comparator market in terms of the types of organisations which would be direct competitors for the calibre of employees required and against which the Group in practice has to recruit within the business environment;
 - (v) to ensure that arrangements are made for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market. This may be through participation in surveys of other companies or the commissioning of a survey through suitable local consultants;

(vi) to ensure that the remuneration package is at all times fully in compliance with local taxation and legal requirements, whilst at the same time maximising legitimate commercial advantage;

- to review and approve the mandate for collective agreement;
- to review, approve and amend as the case may be, the design and terms of the executive shares scheme;
- to review and approve voluntary separation scheme; and
- to note job upgrades of Grades 36 to 38.

b. Meeting and Minutes

- The ECC shall meet at least twice a year or more frequently, if necessary.
- The quorum for the ECC shall be at least three members, including the Chairman, BAT plc's Asia Pacific Regional Director or BAT plc's Asia Pacific Regional Head of Human Resources and the Managing Director, being present.
- The Secretary shall record and circulate the minutes of the meeting.
- The ECC shall report to the Remuneration Committee and its minutes will be tabled and noted by the Board.

In 2010, the ECC met twice to deliberate on matters such as budgets for increment, increment guidelines, bonus payments and benefit reviews.

2. Corporate Social Responsibility (CSR) Committee

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

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

a. Purpose

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

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

b. Authority

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

The CSR Committee will meet at least twice annually.

c. Objectives

The CSR Committee's specific objectives are:

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

d. Relationship with Internal Audit

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

The CSR Committee met twice during the financial year ended 31 December 2010 and deliberated on matters such as proposals to move from corporate responsibility initiatives towards sustainability initiatives through the appointment of a Sustainability Team, enhance contribution towards eradicating poverty by 2010, building and embedding corporate responsibility awareness amongst employees, grant of scholarships and the way forward for the Company's Employee Volunteer Programmes.

For details of the corporate responsibility activities, please refer to pages 64 to 76 of this Annual Report.

3. Risk Management Team (RMT)

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

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

a. Objectives

The RMT's objectives are:

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

b. Authority

The RMT is authorised to:

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

The Risk Management Team met twice during the financial year ended 31 December 2010 to deliberate on the above matters.

c. Relationship with Internal Audit

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

The Board through the Audit Committee reviews the effectiveness of the Group's Enterprise Risk Management programme bi-annually. For details of the Group's Enterprise Risk Management programme and its processes, please refer to pages 126 to 129 of the Annual Report.

Appointment and re-election process of Directors

Appointment process

The Board appoints its members through a formal process which is consistent with the Articles. The Board has established the Nomination Committee to make recommendations on suitable candidates for appointment to the Board, ensuring that the Board has the appropriate balance of expertise and ability. The Nomination Committee is responsible to ensure that the procedures for appointing new Directors are transparent and rigorous and that appointments are made on merit and against objective criteria for the purpose. This process includes an evaluation of the skills and experience of the candidates. This process also applies to Directors who seek re-election or re-appointment at the Company's Annual General Meeting.

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

Re-election or re-appointment process

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

Notwithstanding the above, Directors of the Company do retire in accordance with the Articles.

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

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

The changes to the Board and Directors' re-appointment in 2010 are as follows:

Name	Designation	Nature of changes at the 2010 Annual General Meeting
Tan Sri Abu Talib bin Othman	Independent Non-Executive Director	Re-appointed
Stephen James Rush	Non-Independent Executive Director	Re-elected
Dato' Chan Choon Ngai	Non-Independent Executive Director	Re-elected

William Toh Ah Wah, a Non-Independent Executive Director and James Richard Suttie, a Non-Independent Non-Executive Director, are due to retire pursuant to Articles 97(1) and (2) at the Annual General Meeting on 19 April 2011 and will be recommended for re-election and re-appointment by the Board pursuant to the Articles.

Article 103 of the Articles provides that a Director appointed by the Board from time to time shall hold office only until next Annual General Meeting and shall then be eligible for re-election.

Dato' Chan Choon Ngai, a Non-Independent Executive Director retired on 31 December 2010 pursuant to the Company's retirement policy after attaining the age of 55 and subsequently appointed on 1 February 2011, will retire pursuant to Article 103 and be subjected to re-election at the forthcoming Annual General Meeting.

Section 129(6) of the Companies Act, 1965 provides that a person of or over the age of 70 may be appointed or re-appointed as a Director by the shareholders of the Company to hold office until the next Annual General Meeting. The Chairman of the Company, Tan Sri Abu Talib bin Othman, who has attained the age of 70, will retire in accordance with the aforesaid section and had offered himself for re-election and re-appointment by the Board pursuant to the Articles.

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

The Nomination Committee is satisfied that Tan Sri Abu Talib bin Othman, William Toh Ah Wah, James Richard Suttie and Dato' Chan Choon Ngai have met the requirements set out above and has recommended to the Board of Directors their re-election and re-appointment at the Annual General Meeting on 19 April 2011.

The above Directors who are subject to re-election and reappointment have accepted the recommendation and have agreed to serve as Directors if elected by the shareholders at the forthcoming Annual General Meeting.

Directors' Remuneration

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

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

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

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

The remuneration package for Executive Directors comprises the following elements:

- **Basic Salary**

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

- **Benefits-in-kind**

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

- **Emoluments**

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

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

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

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

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

The details of the remuneration of Executive and Non-Executive Directors for the financial year ended 31 December 2010 are as follows:

Directors	Fees (RM)	Salaries (RM)	Other emoluments* (RM)	Benefits- in-kind** (RM)	Total (RM)
Tan Sri Abu Talib bin Othman Independent Non-Executive Director (Chairman)	337,000 ***	—	2,910	44,716	384,626
Datuk Oh Chong Peng Independent Non-Executive Director	60,000	—	28,000	—	88,000
James Richard Suttie Non-Independent Non-Executive Director	60,000	—	8,000	—	68,000
Dato' Ahmad Johari bin Tun Abdul Razak Independent Non-Executive Director	60,000	—	5,000	—	65,000
William Toh Ah Wah Non-Independent Executive Director (Managing Director)	—	1,814,190	1,577,007	44,287	3,435,484
Dato' Chan Choon Ngai¹ Non-Independent Executive Director (Operations Director)	—	957,225	1,012,820	127,694	2,097,739
Stephen James Rush Non-Independent Executive Director (Finance Director)	—	736,011	1,146,522	201,114	2,083,647

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

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

*** Fees for being Chairman of the Board and Chairman of relevant Board Committees.

¹ Retired on 31 December 2010 after attaining the age of 55 and subsequently appointed on 1 February 2011.

Board Performance Evaluation

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

The Board's performance evaluation process in 2010 reported that the Board and Board Committees have continued to operate effectively in discharging their duties and responsibilities. Overall, the Directors were of the opinion that they have fulfilled their responsibilities as members of the Board and Board Committees and were satisfied with the Group's direction, strategy, planning and budgeting process and their level of contribution to these matters.

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

Directors' Training

In order to ensure that the Directors are well equipped to discharge their responsibilities, newly appointed Directors will undergo an induction programme upon joining the Board which consists of briefings on all areas of the Group's business.

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

All Directors appointed to the Board, apart from attending the MAP have also completed other relevant training programmes to further enhance their business acumen and professionalism in discharging their duties to the Group. Pursuant to paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements, the Directors have during the financial year ended 31 December 2010 attended training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence.

To further enhance the Director's knowledge in relation to the business of the Group, the Directors have made visits to the factory, leaf growing areas and on trade marketing and distribution centers of the Group. During such visits, the Directors obtained first hand understanding of the business operations and challenges faced by the Group.

In 2010, all the Directors attended an in-house education programme and acquired comprehensive insights in relation to the newly enacted Competition Act, 2010, managing risks across the enterprise, updates on the Listing Requirements and shareholders' issues and social media issues and its impact on business. The in-house programme had been led by consultants and professionals with relevant legal, finance and board experience.

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

Particulars of training programmes attended by the Directors as at 31 December 2010 are as follows:

No.	Name of Director	Training Programme	Details of Programme
1.	Tan Sri Abu Talib bin Othman	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business
		The Non-Executive Director Development Series (by Securities Industry Development Corporation)	<ul style="list-style-type: none"> – Anatomy of Corporate Governance – The Power of the Board – When You Don't Comply – Chronicle of a Disaster – Getting it Right
		2011 Budget and Accounting Standards Updates (by Messrs. PricewaterhouseCoopers)	<ul style="list-style-type: none"> – Salient issues of the 2011 Budget and recognition of Financial Reporting Standard 139
2.	William Toh Ah Wah	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business
3.	Datuk Oh Chong Peng	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business
		Regional Cambridge International Symposium on Economic Crime – Attaining Corporate Resilience through Governance & Integrity (by Companies Commission of Malaysia)	<ul style="list-style-type: none"> – The Financial Crisis and Stewardship of People's Wealth; – Directors' Responsibility in Modern View: Trimming Down The Failure of Governance; – Corporate Misfeasance & Accountability; – Insiders And Conflicts of Fiduciary Duties; – Corruption and Self Dealing; – Integrity of Corporate Financial Reporting and other Corporate Information; – Fraud Controls and Unraveling of Corporate Crimes; – Enforcing Integrity and Strengthening of Corporate Legal Framework
4.	James Richard Suttie	Board Room Excellence (by SMART Business Consulting)	<ul style="list-style-type: none"> – Good corporate governance processes – Leadership and strategy

No.	Name of Director	Training Programme	Details of Programme
5.	Dato' Chan Choon Ngai	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business
		The Speed of Trust – Driving Economic Value Through Trust (by Stephen Covey)	<ul style="list-style-type: none"> – Doing business at the speed of trust
6.	Stephen James Rush	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business
		The Speed of Trust – Driving Economic Value Through Trust (by Stephen Covey)	<ul style="list-style-type: none"> – Doing business at the speed of trust
7.	Dato' Ahmad Johari bin Tun Abdul Razak	Directors CEP Training Programme 2010 (In-house training)	<ul style="list-style-type: none"> – Competition Act 2010 – Managing Risk Across the Enterprise-The Art of War – Updates on Listing Requirements & Recent Shareholders' Issues – Social Media & Impact on Business

Quality and access to information and independent advice

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

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

attends all meetings of the Executive Compensation Committee, Nomination Committee and Remuneration Committee and save for where the meetings are held only for the Audit Committee and the external auditors the Finance Director attends all meetings of the Audit Committee.

Supply of Information

The Board and Board Committees receive up-to-date information for review in good time and ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures the flow of information to the Board and Board Committees. The Company Secretary is also responsible for advising the Board, through the Chairman on all governance matters. Prior to Board and Board Committees meetings, a formal and structured agenda together with a set

of Board and Board Committees papers containing information relevant to the matters to be deliberated at the meeting is forwarded to all Directors at least five days before the relevant Board and Board Committees meetings. This is to enable Directors to review, consider, and if necessary, obtain further information or research on the matters to be deliberated in order to be well prepared at the meetings. The meeting papers are presented in a manner that is concise which include among others, comprehensive management reports, minutes of meetings, proposals project and supporting documents.

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

The Board recognises that the decision making process is highly dependent on the quality of information furnished. In furtherance to this, every Director has unrestricted access to all information within the Company. The Board encourages the attendance of senior management as well as officers of the Company at Board and Board Committees meetings to increase the Board's understanding of the Company's operations and to give the Directors access to senior management.

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

Relationship with Stakeholders

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

Shareholders

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

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

Annual General Meeting (AGM)

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

The 2010 AGM was held on 20 April 2010 at the Hilton Hotel in Petaling Jaya, Selangor. The number of shareholders that attended the AGM in 2010 had increased and this indicates a high level of engagement with shareholders. All resolutions were approved and all Directors save for the Managing Director including the Company Secretary attended the meeting. The Managing Director, William Toh Ah Wah could not attend the AGM due to unavailability of flights out of London as a result of the Iceland volcanic ash incident. The Board, senior management and the Company's external legal counsels and auditors, Messrs. PricewaterhouseCoopers were present to answer questions raised and provide clarification as required by the shareholders. A press conference is held immediately after the AGM where the Chairman and Finance Director provided updates to the media representatives of the resolutions passed and answered questions on matters related to the Group.

The 2011 AGM will be held on 19 April 2011 at the Hilton Hotel in Petaling Jaya, Selangor. The Notice of AGM and the Proxy Form are enclosed with the Abridged Annual Report 2010. The results of all resolutions proposed will be available on the Company's and the Bursa Malaysia Securities Berhad's websites on 19 April 2011.

Annual Report

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

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

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

project management and consist of a cross functional team comprising of Top Team and Senior Managers of the Company.

The Statement on Corporate Governance, Statement on Internal Control, Corporate Social Responsibility Committee Report, Standards of Business Conduct and Audit Committee Report form part of the Annual Report 2010. These statements and reports were tabled at the Audit Committee meeting for its comments and recommendation to the Board for review and deliberation before being incorporated into the Annual Report 2010.

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

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

Release of Annual Report

	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of year
Annual Report 2010	25 March 2011	30 June 2011	84
Annual Report 2009	23 March 2010	30 June 2010	82

Release of Quarterly Financial Results

2010 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of days after end of quarter
First Quarter	22 April 2010	31 May 2010	22
Second Quarter	22 July 2010	31 August 2010	22
Third Quarter	20 October 2010	30 November 2010	20
Fourth Quarter	22 February 2011	28 February 2011	53

statement on corporate governance

Investor Relations

Quarterly Briefings and other forms of communication

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

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

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

In 2010, the Company held four quarterly briefings, 17 direct one-on-one meetings, two roadshows and hosted two teleconferences with fund managers, institutional investors and investment analysts.

Company Website

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

Senior Personnel

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

Tel: +60 (3)7956 6899

Fax: +60 (3)7491 3772

E-mail: ocpeng@bat.com

Postal Address: Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

Primary contact for investor relation matters:

Finance Director

Contact Details

Tel: +60 (3)7491 7328

E-mail: fdoffice_malaysia@bat.com

Postal Address: Virginia Park, Jalan Universiti, 46200 Petaling Jaya, Selangor Darul Ehsan Malaysia

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

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

Employees

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

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

To ensure compliance, all management employees, including the Board and the Group's supplier and service providers are required to declare their compliance with the Standards and disclose any conflicts of interest on a yearly basis. A register of declaration of interest is maintained by the Company Secretary. All declarations of interest are tabled at the Board meeting for consideration. In 2010, there had been nine declarations of interest made by employees of the Company.

The Company also conducted a Legal Awareness Week aimed at raising the awareness on recently implemented Company's policies and procedures such as Incident Reporting and Investigation Procedures, Motor Vehicle Accident Procedures, Rules on Internet Usage and Smoking Guidelines. Legal clinic was also conducted at the Legal Awareness Week where employees were given the opportunity to obtain free legal advice from external lawyers on selected legal issues.

Details of the Company's Value Systems are available at the Company's website at www.batmalaysia.com.

Consumers

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

Suppliers and Service Providers

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

Accountability and Audit

Financial reporting

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

Directors' responsibility statement in respect of the preparation of the Audited Financial Statements

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

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Company's position and prospects in the Directors' Report at pages 141 to 146 and the Financial Statements from pages 141 to 214 of this Annual Report.

Internal control

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

For details of these processes, please refer to pages 120 to 121 of this Annual Report.

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

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

For details of the Internal Audit function, please refer to page 125 of this Annual Report.

Whistleblowing policy

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

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

The Company's internal whistleblowing procedure was established in 2004 pursuant to the Standards and is constantly reviewed by the Company for enhancements from time to time. The whistleblowing procedure enables employees to make their concerns known without fear of retaliation and with the knowledge that their complaints will be acted upon and their identity is kept confidential. Concerns may also be raised anonymously.

To further enhance the whistleblowing procedure framework, the Company had put in place the Procedures on Incident Reporting and Investigation (Incident Procedures). The Incident Procedures formally set out the process and procedures for reporting, investigation and evaluation of any suspicion of wrongdoing or misconduct committed by any employee of the Group and non employee who is a business partner/service provider of the Group. This includes the commission of an act in breach of any of the Company's standards, policies or guidelines and the commission of any criminal offence.

The Incident Procedures is made available to all employees via the Company's intranet.

The Incident Procedures were further enhanced in 2010 where the composition of the evaluation committee (Evaluation Committee) was revised to comprise the following:

- (i) Managing Director;
- (ii) Marketing Director;
- (iii) Finance Director;
- (iv) Operations Director and
- (v) Corporate and Legal Affairs Director.

The Evaluation Committee is tasked to effectively evaluate the investigation of any reported incident and to decide on appropriate action to be taken arising from the investigation.

The Evaluation Committee is guided in its review of all investigation into incidents reported by a set of standard operating procedures (Evaluation Committee SOP). The Evaluation Committee SOP amongst others sets out clearly the roles and responsibilities of the Evaluation Committee, the Head of Investigation, the Head of Legal and the timelines for the review to be completed to ensure that speedy action is taken after an incident has been reported.

All incidents reported were investigated by an investigation team comprising of Senior Managers working closely with the Evaluation Committee to ensure that all cases which have been reported or discovered are acted upon effectively. The outcome of all investigations are reviewed by the Evaluation Committee and if the case warrants it, police reports will be made, domestic inquiries will be conducted and appropriate disciplinary action including freezing of increments, issuance of severe warnings and termination will be taken.

If any control weaknesses are identified by the investigation team such weaknesses will be rectified to prevent future occurrences.

The outcome of the investigations and the actions taken by the Company will be reported to the Audit Committee of the Company and further submitted to the Regional Audit Committee for the British American Tobacco p.l.c's Main Board Audit Committee.

The Company maintains a register of all whistleblowing/breach of Standards incidences.

In 2010, the Company had pursuant to the Company's whistleblowing procedure and Incident Procedures dealt with 22 reported incidents covering areas like misappropriation of Company's assets, fraud and conflicts of interest which involved a gross loss of approximately RM1.3 million to the Company.

Statement on Internal Control

The Statement on Internal Control furnished at pages 120 to 121 of this Annual Report provides an overview on the state of internal controls within the Group.

Related Party Transactions

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

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

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

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

- All recurrent related party transactions entered into pursuant to the shareholders' mandate shall be reviewed by Internal Audit and incorporated into the annual Internal Audit to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions are adhered to; and
- The Board and the Audit Committee shall review the annual Internal Audit reports to ascertain that the review procedures established to monitor recurrent related party transactions have been complied with.
- The management updates the Board on a quarterly basis on all recurrent related party transactions and in the event there are any discrepancies or queries, the Audit Committee shall direct Internal Audit to carry out investigation pertaining to the discrepancies or queries.

The Recurrent Related Party Transactions entered into by the Group with its related parties in 2010 were for the purchase and sale of cigarettes and tobacco products, purchase of leaf, cigarette packaging materials and tobacco products, procurement of information technology services, payment of royalties, payment of fees for technical and advisory support services, provision of technical and advisory support services and purchase and sale of equipment.

For details of these transactions, please refer to pages 199 to 204 of this Annual Report.

Relationship with External Auditors

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

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

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

The Audit Committee met with the external auditors twice in 2010 without the presence of the Executive Directors or management.

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

Compliance with The Code

The Board has deliberated, reviewed and approved the Statement on Corporate Governance. The Board is satisfied that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Malaysian Code has been applied and that the Company had fulfilled its obligation under the BATM Code, Malaysian Code, the Listing Requirements and all applicable laws and regulations throughout the financial year ended 31 December 2010.

This Statement is made in accordance with the circular resolution of the Board dated 25 February 2011.



TAN SRI ABU TALIB BIN OTHMAN
Chairman

STATEMENT ON INTERNAL CONTROL

Responsibility

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

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

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

Risk management

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

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

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

The Audit Committee was briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2010.

For details of the Group's Enterprise Risk Management programme, please refer to pages 126 to 129 of this Annual Report.

Key internal control processes

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

Other key elements of the system of internal control

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

(a) Policies, procedures and limits of authority

- Clearly defined delegation of responsibilities to committees of the Board and to management including organisation structures and appropriate authority levels; and

- Clearly documented internal policies, standards and procedures are in place and regularly updated to reflect changing risks or resolve operational deficiencies and are communicated and made accessible to all employees on the Company's intranet to ensure compliance. All policies and standards are approved by the Board and cases of non-compliance are reported to the Board and Audit Committee by exception. Reliance is also placed on the Group's Internal Audit as well as the CSA approach.

(b) Strategic business planning, budgeting and reporting

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

(c) Insurance and physical safeguard

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

(d) Top Team meetings

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

(e) Risk and control workshops

- Our employees' attitude towards, and in understanding the Group's Enterprise Risk Management programme is as important as having good systems and policies in place in achieving a robust internal control system. To achieve this, risk awareness workshops and

trainings were carried out for new employees for them to understand the significance of risk management and internal controls, and its impact on their day to day activities. The workshops included an overview of organisations risk management framework and process, importance of internal controls, types of controls, design and assessment of the effectiveness of internal controls.

(f) Other matters

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

The Board considers the system of internal controls satisfactory and is not aware of any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report 2010.

This Statement is made in accordance with the resolution of the Board on 22 February 2011.

Review of the statement by external auditors

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

AUDIT COMMITTEE REPORT

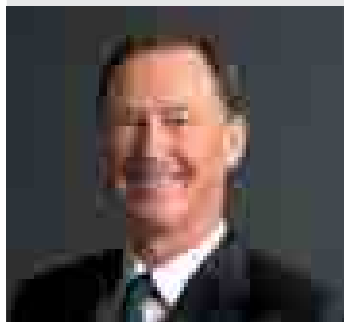
Datuk Oh Chong Peng
Chairman



Tan Sri Abu Talib bin Othman
Member



James Richard Suttie
Member



Dato' Ahmad Johari bin Tun Abdul Razak
Member



Membership and attendance

The Audit Committee comprised the following members and details of attendance of each member at the Audit Committee meetings during 2010 are as follows:

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

The Audit Committee convened four meetings during the year, which were attended by all the members.

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

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

Composition and terms of reference

a. Members

The Audit Committee shall be appointed by the Board of Directors (Board) and shall comprise of not less than three members. All members including the Chairman are Non-Executive Directors and the majority shall be Independent Directors.

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

- have passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967; or
- is a member of one of the associations of accountants specified in Part II of the said schedule; or

- c. has a degree/masters/doctorate in accounting or finance and at least three years' post qualification experience in accounting or finance; or
- d. is a member of a professional accountancy organisation which has been admitted as full members of the International Federation of Accountants and at least three years' post qualification experience in accounting or finance; or
- e. at least seven years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

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

In the event of any vacancy in the Audit Committee resulting in the non-compliance of paragraph 15.09(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board shall fill the vacancy within three months from the date of the vacancy.

b. Chairman

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

c. Quorum

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

d. Meetings and minutes

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

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

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

e. Authority

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

The Audit Committee shall obtain external professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the expenses of which will be borne by the Company.

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

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

Responsibilities and duties

The responsibilities and duties of the Audit Committee are:

a. Financial reporting

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

b. Related party transactions

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

c. Audit reports

- To prepare the annual Audit Committee report to the Board which includes the composition of the Audit Committee, its terms of reference, number of meetings held, a summary of its activities and the existence of an Internal Audit function and summary of the activities of that function for inclusion in the Annual Report; and
- To review the Board's Statement on Corporate Governance for inclusion in the Annual Report.

d. Internal control

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

e. Internal audit

- To be satisfied that the strategies, plans, manning and organisation for internal auditing are communicated down through the Group specifically:
 - (i) to review Internal Audit's audit plans and to be satisfied as to their consistency with the Group's Enterprise Risk Management programme and adequacy of coverage;
 - (ii) to be satisfied that the Internal Audit function within the Group has the proper resources and standing to enable them to complete their mandates and approved audit plans;
 - (iii) to review status reports from Internal Audit and ensure that appropriate actions have been taken to implement the audit recommendations;
 - (iv) to recommend any broader reviews deemed necessary as a consequence of the issues or concerns identified;

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

f. External audit

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

g. Other matters

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

Summary of activities 2010

In 2010, the Audit Committee carried out its duties in accordance with the terms of reference of the Audit Committee.

During the year 2010, the Audit Committee carried out the following activities:

Financial reporting

- a. Reviewed the quarterly and annual audited financial statements of the Company and the Group with the Finance Director and Managing Director, focusing particularly on significant changes to accounting policies and practices, adjustments arising from the audits, compliance with accounting standards and other legal requirements before recommending them to the Board for approval.

Internal control (Risk management)

- a. Reviewed the Group's Enterprise Risk Management programme, including the top 20 risks for the Group's Enterprise Risk Management programme work plan,
- b. Reviewed and recommended to the Board steps to improve the Company's system of internal controls derived from the findings of the Internal Audit and external auditors.
- c. Received updates on breaches of the Standards of Business Conduct and whistle-blowing incidents.

Internal audit

- a. Reviewed Internal Audit's audit plans and had been satisfied as to their consistency with the Group's Enterprise Risk Management programme and adequacy of coverage.
- b. Reviewed status reports from Internal Audit to ensure that appropriate actions had been taken to implement the audit recommendations.

Related party transactions

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

External audit

- a. Reviewed with the external auditors the Company's Statement on Internal Control before recommending the same for inclusion in the Company's Annual Report 2010.
- b. Reviewed with the external auditors the Group's quarterly and annual audited financial statements with the Finance Director and Managing Director, focusing on findings arising from audits particularly comments and responses in management letter as well as assistance given by the employees of the Group before recommending them to the Board for approval.
- c. Reviewed the external auditors' audit plan, nature and scope of the audit plan, audit report, evaluation of internal controls and co-ordination of the external auditors.
- d. Reviewed the external auditors' findings arising from audits, particularly comments and responses in management letter as well as the assistance given by the employees of the Group in order to be satisfied that appropriate action is being taken.
- e. Received and update and noted the improvement in the external auditors' satisfaction survey for 2009.

Internal audit function

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

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

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

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

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

Other main activities performed by the Internal Audit are as follows:

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

In 2010, the Company's system of internal controls was satisfactory and had not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Company Annual Report 2010.

In October 2010, an Audit Committee effectiveness survey had been carried out with results demonstrating improvements in the overall level of effectiveness particularly in the areas pertaining to the Committee's governance process and the business risk reviews.

This Audit Committee Report is made in accordance with the resolution of the Board on 22 February 2011.

REPORT ON CORPORATE RISK MANAGEMENT

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

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

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

- Ensuring the continuity of its supply to consumers at all times;
- Protecting its assets and reputation;
- Preserving the safety and health of its employees;
- Ensuring that the Group's operations do not impact negatively on its neighbours and the environment;
- Protecting the interests of all other stakeholders;
- Ensuring compliance with the Malaysian Code on Corporate Governance, British American Tobacco p.l.c. guidelines and all applicable laws; and
- Promoting an effective risk awareness culture where risk management is an integral aspect of the Group's management systems.

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

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

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

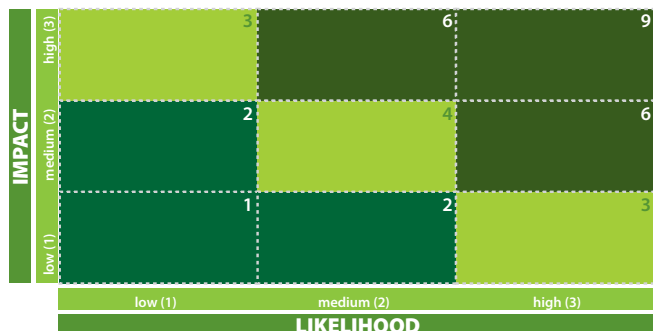
The Group's Enterprise Risk Management programme comprises five phases, namely:



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

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

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



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

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

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

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

The Group's Enterprise Risk Management programme is subjected to periodic reviews to ensure that the policy and objectives of the programme remain applicable and effective under changing market and regulatory environment. The Group's Internal control practices are built on the principles set out in the Malaysian Code on Corporate Governance and the requirement of the key control checklist of the Company's ultimate holding company, British American Tobacco p.l.c.

Promotion of risk awareness

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

In 2010, risk awareness induction programmes were carried out by the Risk Management Team for new staff. The induction programme was aimed at educating management staff on the Group's approach to risk management and internal controls, and provided a forum to enhance the participants knowledge on risk management and their role in the managing the Group's risks.

Review of the Group's Enterprise Risk Management programme

The Risk Management Team met twice during the year, in March and August 2010 to review the Group's risk profile and key activities during the year, including the progress of the business continuity plans. The functional risk registers were also individually reviewed by the respective functions on a quarterly basis.

During the year, business continuity plans tested were the manufacturing contingency sourcing plan, product recall, factory emergency response plan, IT disaster recovery plan and disaster recovery plan for Direct Store Sales (DSS) centres. Other business continuity plans such as head office site recovery plan and wrapping material supply plan were reviewed and updated.

In August 2010, the Risk Management Team together with Senior Managers updated the risk register and risk mitigation action plans. The Top Team and the Audit Committee were briefed by the Enterprise Risk Manager on the Group's Enterprise Risk Management programme in April and October 2010. The briefing included updates on the key risks of the Group and the risk mitigation plans, and the status of business continuity plans testing.

Key risks of the Group

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

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

Major risks include:

- (i) Illicit cigarette trade (whereby cigarettes are smuggled into the country) represents a significant and growing threat to the legitimate tobacco industry. A dedicated team is established within the Group to proactively manage this risk by working with other industry players and the relevant authorities.

- (ii) High levels and continued increase of excise and taxes, including introduction of new taxes could impact the volumes of the legal industry whilst fuelling illicit trade. The Group maintains an excise and pricing strategy including contingency plans to manage the impact of significant excise changes.
- (iii) The Group operates under increasingly stringent regulatory regimes in accordance with the relevant regulations governing sale and manufacture of tobacco products. Such regulations are developed and driven by the Framework Convention of Tobacco Control. The Group has in place strategies to ensure that regulations developed on governing tobacco products are sensible and enforceable.
- (iv) The risk of hijack/theft of goods in transit resulting in losses to the Group's property is managed through enhanced security measures, which are continually reviewed and upgraded as necessary.
- (v) Shortage of local leaf from environmental factors such as draught and floods, and farmers leaving the industry for alternative crops are mitigated through the Global Leaf Pool established by the holding company to manage the leaf requirement of its subsidiaries through alternative sourcing.

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

Crisis Management Team

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

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

In 2010, the Crisis Management Team and Crisis Response Team were activated to respond to a potential shortage in supply of wrapping material as a result of a machine breakdown in one of our suppliers. This crisis was managed in line with established business continuity plans, with minimal disruption to our business operations.





WINNING ORGANISATION

PASSION FOR OUR PEOPLE IS REFLECTED THROUGH OUR DEDICATION
TO PROVIDE A GREAT WORKING ENVIRONMENT AND TO DEVELOP A
SUSTAINABLE TALENT PIPELINE FOR A HIGH PERFORMING ORGANISATION.

WINNING ORGANISATION

Passion for our people

At British American Tobacco Malaysia, our passion for our people is demonstrated through our continued commitment to invest in the recruitment, development and retention of our talent to ensure we have a sustainable talent pipeline to help drive the business.

We also recognise that maintaining an excellent working environment is conducive towards developing a high performing organisation. With that in mind, we always strive to provide opportunities for our employees to have robust development plans and career progression in an environment where people can perform and enjoy.

Passion for the right talent

In 2010, we remained focused on attracting top talent into British American Tobacco Malaysia to ensure a talent pipeline for long-term business sustainability. During the year, the Company applied innovative approaches to enhance our corporate profile amongst higher education institutions and student bodies both locally and abroad.

Our need for fresh talent saw our inaugural participation in a leadership development event for undergraduate students via a partnership with the United Kingdom and EIRE Council for Malaysian Students (UKEC) where we had proactive engagement with the participants to create awareness on career opportunities with British American Tobacco Malaysia. The Company then extended its hospitality to potential talents for a Bring Your Difference Day where students were invited to spend a day at British American Tobacco Malaysia to experience a leadership workshop and engage with members of the senior management team.

HIGHLIGHTS

We focused on attracting top fresh talent into British American Tobacco Malaysia to ensure a sustainable talent pipeline, through the initiatives below:

- Partnership with UKEC for Malaysian students
- Bring Your Difference Day with university students
- GRADUAN Career Fair in Melbourne



"Passion is being focused and motivated on your objectives to get you through good and bad times."

Eric Low, Marketing HR Development Manager

British American Tobacco Malaysia also participated in the Graduan Career Fair held in Melbourne, Australia. This annual career fair was organised for all Malaysian students studying in Australia, providing the opportunity for them to engage with top Malaysian companies. In addition to the usual career fair activities, we took an innovative approach to mobilise our talent from the Human Resource, Operations and Marketing functions to host the recruitment and engagement events for high-performing Malaysian undergraduates during the three-day event. Arising from this, we were successful in awarding conditional offers to eight candidates upon their graduation in 2011 for the much sought-after Global British American Tobacco Management Trainee programme.

Continuous talent development

British American Tobacco Malaysia remains committed and passionate in developing our people's capabilities to form a truly world-class workforce. Talent development is a key pillar in British American Tobacco Group's global strategy for a Winning Organisation. Our talent development initiatives have provided a strong and holistic platform in building a robust talent pool for our current and future business needs.

In 2010, our training strategy remained focused on developing both functional skills and leadership development. In-house and external training programmes were conducted for our employees to meet these objectives. A key programme, which was the Team Leaders Development Workshop, provided our managers with formal learning modules and a toolkit to aid them in becoming more effective leaders. New regional training courses from British American Tobacco Group's regional HR Centres of Expertise were also integrated namely the '*License to Hire*' programme which reinforced senior line managers' skills in hiring the right talent for the organisation, and the '*Emerging Leaders Programme*' aimed at sustainable development of our top talent's leadership skills via on-the-job training, virtual community learning, as well as re-emphasising the benefits of active mentoring and coaching.

British American Tobacco Malaysia participated at the Malaysian Student Leaders Summit organised by the United Kingdom and EIRE Council for Malaysian Students (UKEC) in July 2010.

Bring Your Difference Day was hosted by British American Tobacco Malaysia, inviting university students to experience a leadership workshop and engage with members of our senior management team.



HIGHLIGHTS

In 2010, our training strategy focused on developing both functional skills and leadership development. Three of the key training programmes are listed below:

- *Team Leaders Development Workshop*
- *Licence to Hire*
- *Emerging Leaders Programme*

We remain committed to enhancing the capabilities of our high potential employees by enabling them to attend international training programmes for further enhancement of functional knowledge and leadership skills.

Fundamental courses on marketing topics were also made available to Marketing employees via online media, which made online testing available to allow participants to learn at their own pace and convenience. The topics included in this course are listed below:

Type of Marketing course	Purpose	Total participation (number of person)
Induction	To provide a fundamental understanding of the Company to newcomers in the Marketing function	217
Core	To provide more in depth learning on the fundamental business processes to newcomers in the Marketing function	127
Trade, Brand, Strategy, Planning and Insights	To provide in depth understanding of individual functions, depending on the role of the newcomer	50

Throughout 2010, our management trainees also continued to be seconded on short-term cross-market secondments via the talent exchange programme, where they were given the opportunity to drive and deliver key projects identified in their development plans. To date, our management trainees have had work experience in countries such as Indonesia, Hong Kong, Singapore, Vietnam, Sri Lanka, and South Korea among others.

Employee Referral Programme

We recognise that our employees are the best ambassadors for the Company as they know the corporate culture and environment best. As such, we have actively utilised the Employee Referral Programme (ERP) to leverage on our employees



- 1** Training provided includes upskilling the trade marketing team with sharing of best practices on sales and distribution processes.

to identify and refer suitable candidates to fill management positions. Based on the success of the ERP in filling vacancies, we launched targeted ERP campaigns to boost recruitment efforts for our sales force, in February 2010, resulting in an increased rate of positions filled up.

In ensuring that recruitment needs of our dynamic sales force were met, we also engaged several agencies to supply us with the necessary talent on short notice by having a buffer pool of candidates. This resulted on a reduced time to fill sales vacancies, with positive impact to the business.

Making ourselves heard through Your Voice 2010

British American Tobacco Malaysia has always actively sought and addressed employees' formal feedback through the British American Tobacco Group's global survey known as Your Voice. The survey is designed to obtain feedback from employees on their feelings and thoughts about the organisation on aspects such as strategic leadership, talent development, performance and reward, and corporate responsibility.

In 2010, we continued to implement initiatives in response to the last survey conducted in 2008, and in mid-2010, we launched the 12th edition of the Your Voice survey. Through the coordinated efforts of our Your Voice taskforce teams throughout the country, we achieved a 98% survey participation rate from our employees. Survey results received were analysed by functional representatives and ensuing action plans arising from the feedback would be announced and implemented in 2011.

Recognising our employees through the Long Service Awards

British American Tobacco Malaysia also demonstrated passion towards providing recognition, and rewarding our long serving employees in the organisation. In November 2010, the Company hosted the Long Service Awards, an annual event to pay tribute to long serving employees of ten, twenty and thirty years, as well as retiring employees. In 2010, 68 of our employees were awarded the Long Service Award out of which, 12 were retiring from the organisation.

Retirees were also given recognition
in the Long Service Awards.

1



HIGHLIGHTS

98%

*Employee feedback survey
participation rate.*

winning organisation



"The daily work we do is constantly at the top of our mind. So when we reap the results and benefits – it's truly the great feeling of self satisfaction that money can't buy. This, to me, is Passion."

*Ezmir Hazizi,
Regulatory Affairs Executive*

Developing talent across geographical borders

We believe that developing talent is not constrained by geographical boundaries and thus channel this belief and passion towards providing opportunities for our talented employees to develop global career through overseas assignments across the greater British American Tobacco world.

This opportunity enables our employees to gain invaluable work experience, contribute their expertise and share the best practices learnt within other British American Tobacco operations. On top this, they are able to experience different cultures and ways of working that will develop their leadership qualities.

Prioritising employee wellbeing

Ensuring that employees stay energised, enthusiastic and full of passion is not an easy feat for an organisation of British American Tobacco Malaysia's size. In 2010, we stepped up our efforts to enhance our working environment and laid down robust platforms to ensure our employees maintain a healthy worklife balance.

Our Sports Club, run by two full time employees, is dedicated to providing this balance to all British American Tobacco Malaysia employees. In 2010, the Sports Club organised a variety of events, including karaoke singing competitions, fishing carnivals, cooking workshops and extreme sporting activities like white water rafting, among others.

In an effort to better understand our employees' needs, a feedback mechanism was also set up to encourage an open and transparent culture where employees are given a voice to provide feedback and ideas for improvements in the organisation. An open feedback box was introduced around the office premises to cater to anonymous employee feedback on anything relating to the business, including employees' welfare.

As a result of this, improvements have been made to the workplace throughout

- 1 Participants facing the rapids in Sungai Padas, Sabah during a white water rafting excursion organised by the Sports Club.
- 2 The Company Annual Dinner organised by the Sports Club was themed 'Born to be wild' in 2010.



the year to improve employees' well-being, and more are underway. Improvements implemented and those that are still in progress are listed below:

- Building a recreational "chill-out" room in the office headquarters with various games equipment.
- Setting up recreational areas in the Company's state offices with games equipment.
- Upgrading pantries in the Company's state offices with new kitchen equipment such as refrigerators and kettles.
- Improving cafeteria food for employees on the night shift and installing a microwave for them to heat up their food.
- Celebrating the success of achieving business targets with employees, via various celebration activities throughout the year.

These proactive initiatives went a long way in assuring our employees that their voices and feedback are heard and also in enhancing their wellbeing, which in turn, boosted employee morale and ultimately passion at work.

HIGHLIGHTS

Various celebrations of success took place in 2010, involving senior management staff in showing appreciation to employees for their efforts in driving to meet business targets.

- 1 William Toh, Managing Director serving snacks to an employee.
- 2 Hendrik Stoel, Marketing Director serving an employee dinner.
- 3 Management staff washing employees' cars.



"Passion is about igniting excitement within a department and having something to look forward to when coming to work. For example, Marketing Research and Insights have spontaneous themed dress-up days. Things like these add a spicier edge to a Business As Usual day."

Genevieve Hiew, Research Executive



DEVELOPING TALENT ACROSS GEOGRAPHICAL BORDERS

We are proud to list our seconded Malaysian employees that are currently located around the world as well as our management trainees who have been on short-term secondments around the world under the British American Tobacco Global Management Training Programme.

Management Trainees on short-term secondment in 2010 ▲

1. Azleena binti Sadurrudin (Marketing)
British American Tobacco Korea,
South Korea
2. Ezmir Hazizi bin Azhar (Corporate and
Regulatory Affairs)
PT Bentoel Internasional Investama Tbk,
Indonesia
3. Lim Yiling (Finance)
Ceylon Tobacco Company p.l.c.,
Sri Lanka
4. Maxine Lim Jen Ai (Corporate
and Regulatory Affairs)
Asia Pacific Regional Office,
Hong Kong
5. Ng Jill Ann (Marketing)
British American Tobacco Korea, South
Korea
6. Shaun Lim Wei Heng (Marketing)
British American Tobacco Taiwan,
Taiwan



SWITZERLAND

Anthony Yong
Head of Finance

PAKISTAN

Shaiful Bahari Mahpar
Area Head of Corporate and
Regulatory Affairs

NEW ZEALAND

Janice Thein Mei Li
Corporate and Regulatory Affairs
Manager

CAMBODIA

Andrew Yeo
Head of Human Resources

VIETNAM

Claire Chan Soo Fong
Head of Strategic Planning &
Insights

Tang Chung Leong
Head of Supply Chain



INDONESIA

Bruce Richard Jalleh
Chief Integration Planning Officer

Ramli bin Tamby Hashim
President Director, Export Leaf

Jimmy Ding Su Hong
Head of Trade Marketing & Distribution

SINGAPORE

Ong Hean Boon
Regional Manufacturing Development Manager

Joel Solomon
Production Planning Manager

Wong Voon Gah
New Product Introduction Manager

Terrance Allen Sim
Distribution Sales Store Manager

HONG KONG

Yong Kar Yee
Regional IT Planning Manager

Shamilla Thiruganaselvam
Regional Head of Regulation

SOUTH KOREA

Mark Lim Kuan Yoong
Regional Brand Manager



REPORTS AND FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2010.

Principal Activities

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

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

Financial Result

	Group RM'000	Company RM'000
Profit before tax	959,181	741,805
Tax expense	(228,070)	(5,424)
Net profit for the financial year	731,111	736,381

Dividends

	RM'000
The dividends paid or declared by the Company since 31 December 2009 were as follows:	
In respect of the financial year ended 31 December 2009, as shown in the Directors' report of that year:	
Final dividend of 62.00 sen per share, tax exempt under the single-tier system, paid on 7 May 2010	177,029
In respect of the financial year ended 31 December 2010:	
First interim dividend of 113.00 sen per share, tax exempt under the single-tier system, paid on 20 August 2010	322,649
Second interim dividend of 64.00 sen per share, tax exempt under the single-tier system, paid on 19 November 2010	182,739
	505,388

The Directors declared a third interim dividend of 63 sen per share at the Board of Directors' meeting on 22 February 2011 amounting to RM179,883,900, in respect of the financial year ended 31 December 2010 which will be paid on 23 March 2011 to shareholders registered in the Company's Register of Members at the close of business on 10 March 2011. These financial statements do not reflect the third interim dividend which will be accounted for in the financial year ending 31 December 2011.

The Directors do not recommend a final dividend in respect of the financial year ended 31 December 2010.

Reserves and Provisions

All material transfers to and from reserves and provisions during the financial year are shown in the financial statements.

Directors

The Directors who held office during the period since the date of the last report are as follows:

Tan Sri Abu Talib bin Othman (Chairman)

Toh Ah Wah

Dato' Ahmad Johari bin Tun Abdul Razak

Stephen James Rush

Dato' Chan Choon Ngai

James Richard Suttie

Datuk Oh Chong Peng

In accordance with Articles 97(1) and (2) of the Company's Articles of Association, Toh Ah Wah and James Richard Suttie will retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

Tan Sri Abu Talib bin Othman, having attained the age of seventy, will retire in accordance with Section 129(2) of the Companies Act, 1965 at the forthcoming Annual General Meeting. The Board recommends that Tan Sri Abu Talib bin Othman be re-elected in accordance with Section 129(6) of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting.

In accordance with Article 103 of the Company's Articles of Association, Dato' Chan Choon Ngai will retire from the Board at the forthcoming Annual General Meeting and, being eligible, has offered himself for re-election.

Directors' Benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate pursuant to provisions under the Companies Act, 1965, other than as may arise from equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. is deemed to be the ultimate holding company) as disclosed in Note 30 to the financial statements.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefits shown in Note 4 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than by virtue of transactions entered into in the ordinary course of business as disclosed in Note 27 to the financial statements.

Membership of the Remuneration Committee

The Remuneration Committee mainly comprises of Non-Executive Directors and the members of the Remuneration Committee as at 31 December 2010 are:

Tan Sri Abu Talib bin Othman (Chairman, Independent Non-Executive Director)

Datuk Oh Chong Peng (Independent Non-Executive Director)

James Richard Suttie (Non-Independent Non-Executive Director)

Toh Ah Wah (Non-Independent Executive Director)

Directors' Interests in Shares

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and its related corporations are as follows:

The Company	Number of ordinary shares of 50 sen each in the Company			
	At 1.1.10	Bought	Sold	At 31.12.10
Shareholdings in the name of the Director:				
Tan Sri Abu Talib bin Othman	41,000	—	—	41,000
Datuk Oh Chong Peng	1,000	—	—	1,000
James Richard Suttie	1,500	—	—	1,500
Dato' Chan Choon Ngai	1,000	—	—	1,000
Shareholdings in which the Director is deemed to have an interest:				
James Richard Suttie	3,000	—	3,000	—
Dato' Chan Choon Ngai	6,000	—	—	6,000

Ultimate Holding Company – British American Tobacco p.l.c.	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.10	Bought/ Granted	Sold	At 31.12.10
Shareholdings in the name of the Director:				
James Richard Suttie	7,154	—	—	7,154
Dato' Chan Choon Ngai	25,433	1,534	1,534	25,433
Stephen James Rush	3,449	3,570	3,570	3,449
Toh Ah Wah	33,424	499	1,098	32,825
Shareholdings in which the Director is deemed to have an interest:				
James Richard Suttie	7,073	—	—	7,073

Directors' Interests in Shares (Continued)

Ultimate Holding Company – British American Tobacco p.l.c.	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	At 1.1.10	Awarded	Vested	At 31.12.10
Deferred Share Bonus Scheme & International Share Reward Scheme:				
Shareholdings in the name of the Director:				
Dato' Chan Choon Ngai	6,432	1,111	1,534	6,009
Stephen James Rush	7,223	1,153	2,074	6,302
Toh Ah Wah	15,246	3,094	3,954	14,386

Ultimate Holding Company – British American Tobacco p.l.c.	Number of options in ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.10	Granted	Exercised	Lapsed	At 31.12.10
Shareholdings in the name of the Director, Exercise Price and Expiry Date:					
Dato' Chan Choon Ngai					
£5.98 (19 March 2013)	7,392	—	—	—	7,392
£8.09 (17 March 2014)	5,163	—	—	—	5,163
Nil (13 March 2017)	5,178	—	—	—	5,178
Nil (13 March 2018)	4,811	—	—	—	4,811
Nil (27 March 2019)	7,784	—	—	—	7,784
Nil (25 March 2020)	—	5,482	—	—	5,482
Stephen James Rush					
Nil (13 March 2017)	1,673	—	1,673	—	—
Nil (13 March 2018)	5,478	—	—	—	5,478
Nil (27 March 2019)	6,602	—	—	—	6,602
Nil (25 March 2020)	—	5,088	—	—	5,088
Toh Ah Wah					
£8.09 (17 March 2014)	10,856	—	—	—	10,856
Nil (17 May 2015)	9,244	—	—	—	9,244
Nil (15 March 2016)	8,642	—	—	—	8,642
Nil (13 March 2017)	8,517	—	—	—	8,517
Nil (13 March 2018)	8,635	—	—	—	8,635
Nil (27 March 2019)	14,098	—	—	—	14,098
Nil (25 March 2020)	—	10,317	—	—	10,317

Directors' Interests in Shares (Continued)

Some of the shares and options in the ultimate holding company held by Directors arose as a result of the Directors' participation in the employee share schemes offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). Further details on the employee share schemes offered by British American Tobacco p.l.c. are contained in Note 30 to the financial statements.

Statutory Information on the Financial Statements

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations when they fall due.

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

- (a) any charge on the assets of the Group or Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group or Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

Statutory Information on the Financial Statements (Continued)

In the opinion of the Directors:

- (a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group or Company for the financial year in which this report is made.

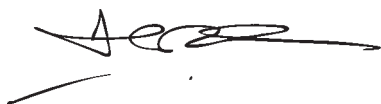
Ultimate Holding Company

The Directors regard British American Tobacco p.l.c., which is incorporated in England and Wales, to be the ultimate holding company of the Company.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 22 February 2011.



Toh Ah Wah

Managing Director

Petaling Jaya



Stephen James Rush

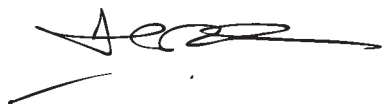
Finance Director

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

We, TOH AH WAH and STEPHEN JAMES RUSH, two of the Directors of British American Tobacco (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 150 to 214 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2010 and of the results and cash flows of the Group and Company for the financial year ended on that date in accordance with Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with a resolution dated 22 February 2011.



Toh Ah Wah
Managing Director



Stephen James Rush
Finance Director

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, STEPHEN JAMES RUSH, the Director primarily responsible for the financial management of British American Tobacco (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 150 to 214 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



Stephen James Rush
Finance Director

Subscribed and solemnly declared by the abovenamed Stephen James Rush at Petaling Jaya in the state of Selangor on 22 February 2011.

Before me:



Soong Foong Chee
Commissioner for Oaths
Petaling Jaya

INDEPENDENT AUDITORS' REPORT

to the members of British American Tobacco (Malaysia) Berhad
(Incorporated in Malaysia)
(Company No: 4372-M)

Report on the Financial Statements

We have audited the financial statements of British American Tobacco (Malaysia) Berhad on pages 150 to 213, which comprise the balance sheets as at 31 December 2010 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 30.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of the subsidiary of which we have not acted as auditors, which is indicated in Note 13 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 31 on page 214 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits and Losses in the context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



PricewaterhouseCoopers

[AF:1146]

Chartered Accountants



Jayarajan A/L U. Rathinasamy

[2059/06/12 (J)]

Chartered Accountant

Kuala Lumpur
22 February 2011

INCOME STATEMENTS

for the financial year ended 31 December 2010

	Note	Group		Company	
		Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Revenue	2	3,965,448	3,923,421	784,477	697,371
Cost of sales		(2,476,641)	(2,379,034)	—	—
Gross profit		1,488,807	1,544,387	784,477	697,371
Other operating income		28,120	5,739	5,265	1,907
Distribution and marketing costs		(370,109)	(362,381)	—	—
Administrative expenses		(156,471)	(141,819)	(19,355)	(19,714)
Other operating expenses		(3,766)	(12,791)	(1,182)	(805)
Profit from operations	3	986,581	1,033,135	769,205	678,759
Finance cost – interest expense		(27,400)	(27,823)	(27,400)	(27,823)
Profit before tax		959,181	1,005,312	741,805	650,936
Tax expense	6	(228,070)	(258,528)	(5,424)	(10,087)
Profit for the financial year		731,111	746,784	736,381	640,849
Profit attributable to:					
Owners of the Company		731,111	746,784	736,381	640,849
Earnings per share (sen)	7	256.1	261.5	—	—
Net dividends per share (sen)	8	240.0	236.0	240.0	236.0

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2010

	Note	Group		Company	
		Year ended 31.12.10 RM'000	Year ended 31.12.09* RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09* RM'000
Profit for the financial year		731,111	746,784	736,381	640,849
Other comprehensive income:					
Changes in fair value of cash flow hedges	21	(1,832)	—	(592)	—
Defined benefit plan actuarial loss	24	(90)	(213)	(31)	(234)
Deferred tax movement on other comprehensive income					
– Deferred tax on revalued land and buildings	14	3,911	60	—	—
– Deferred tax on fair value changes on cash flow hedges	14	458	—	148	—
Total other comprehensive income for the financial year, net of tax		2,447	(153)	(475)	(234)
Total comprehensive income for the financial year		733,558	746,631	735,906	640,615
Total comprehensive income for the financial year attributable to:					
Owners of the company		733,558	746,631	735,906	640,615

* The Group has applied FRS 139 from 2010 onwards, as the standard does not require retrospective application as allowed under the transitional provisions of FRS 139.

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2010

	Note	Group		
		2010 RM'000	2009* (As restated) RM'000	2008* (As restated) RM'000
Non current assets				
Property, plant and equipment	9	405,826	451,069	459,079
Investment property	10	1,636	1,654	—
Computer software	11	4,336	6,550	15,232
Goodwill	12	411,618	411,618	411,618
Deferred tax assets	14	15,158	19,295	4,978
		838,574	890,186	890,907
Current assets				
Assets held for sale	16	888	4,288	20,638
Inventories	17	193,572	214,258	224,958
Receivables	18	179,489	164,712	257,818
Tax recoverable		—	—	33,604
Deposits, cash and bank balances	19	356,623	168,686	59,387
		730,572	551,944	596,405
Current liabilities				
Payables	20	314,208	219,088	285,737
Derivative financial instruments	21	1,832	—	—
Borrowings		—	—	250,000
Current tax liabilities		66,758	80,962	96,512
		382,798	300,050	632,249
Net current assets/(liabilities)		347,774	251,894	(35,844)
		1,186,348	1,142,080	855,063
Capital and reserves				
Share capital	23	142,765	142,765	142,765
Cash flow hedge reserve		(1,374)	—	—
Retained earnings		349,035	296,520	263,714
Shareholders' funds		490,426	439,285	406,479
Non current liabilities				
Borrowings	22	650,000	650,000	400,000
Post employment benefit obligations	24	4,117	6,043	5,297
Deferred tax liabilities	14	41,805	46,752	43,287
		1,186,348	1,142,080	855,063

* The restatement reflects the change in the Group's accounting policy for classification of leasehold land as required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

COMPANY BALANCE SHEET

as at 31 December 2010

	Note	Company		
		2010 RM'000	2009* (As restated) RM'000	2008* (As restated) RM'000
Non current assets				
Property, plant and equipment	9	16,567	19,947	25,406
Computer software	11	4,336	6,550	15,086
Subsidiaries	13	1,022,389	1,022,889	1,022,889
Deferred tax assets	14	4,166	8,520	4,978
Loan to a subsidiary	15	80,000	80,000	—
		1,127,458	1,137,906	1,068,359
Current assets				
Assets held for sale	16	—	1,950	—
Receivables	18	104,501	237,809	283,944
Tax recoverable		—	—	33,604
Deposits, cash and bank balances	19	258,517	461	1,129
		363,018	240,220	318,677
Current liabilities				
Payables	20	526,098	466,339	406,003
Derivative financial instruments	21	592	—	—
Borrowings		—	—	250,000
Current tax liabilities		220	1	—
		526,910	466,340	656,003
Net current (liabilities)/assets		(163,892)	(226,120)	(337,326)
		963,566	911,786	731,033
Capital and reserves				
Share capital	23	142,765	142,765	142,765
Cash flow hedge reserve		(444)	—	—
Retained earnings		168,891	114,958	188,168
Shareholders' funds		311,212	257,723	330,933
Non current liabilities				
Borrowings	22	650,000	650,000	400,000
Post employment benefit obligations	24	2,354	4,063	100
		963,566	911,786	731,033

* The restatement reflects the change in the Group's accounting policy for classification of leasehold land as required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2010

	Note	Issued and fully paid ordinary shares of 50 sen each		Non-distributable	Distributable	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000	Cash flow hedge reserve* RM'000	Retained earnings RM'000	
At 1 January 2010		285,530	142,765	—	296,520	439,285
Profit for the financial year ended 31 December 2010		—	—	—	731,111	731,111
Other comprehensive income:						
– changes in fair value of cash flow hedges, net of tax		—	—	(1,832)	—	(1,832)
– defined benefit plan actuarial loss	24	—	—	—	(90)	(90)
– deferred tax on revalued land and buildings	14	—	—	—	3,911	3,911
– deferred tax on fair value changes on cash flow hedges	14	—	—	458	—	458
Total comprehensive income		285,530	142,765	(1,374)	1,031,452	1,172,843
Transaction with owners:						
Dividends for financial year ended 31 December 2009 – final	8	—	—	—	(177,029)	(177,029)
Dividends for financial year ended 31 December 2010 – first interim	8	—	—	—	(322,649)	(322,649)
– second interim	8	—	—	—	(182,739)	(182,739)
At 31 December 2010		285,530	142,765	(1,374)	349,035	490,426
At 1 January 2009		285,530	142,765	—	263,714	406,479
Profit for the financial year ended 31 December 2009		—	—	—	746,784	746,784
Other comprehensive income:						
– defined benefit plan actuarial loss	24	—	—	—	(213)	(213)
– deferred tax on revalued land and buildings	14	—	—	—	60	60
Total comprehensive income		285,530	142,765	—	1,010,345	1,153,110
Dividends for financial year ended 31 December 2008 – final		—	—	—	(217,003)	(217,003)
Dividends for financial year ended 31 December 2009 – first interim	8	—	—	—	(322,649)	(322,649)
– second interim	8	—	—	—	(174,173)	(174,173)
At 31 December 2009		285,530	142,765	—	296,520	439,285

* The Group has applied FRS 139 from 2010 onwards, as the standard does not require retrospective application as allowed under the transitional provisions of FRS 139.

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2010

	Note	Issued and fully paid ordinary shares of 50 sen each		Non- distributable	Distributable	Total attributable to Owners RM'000
		Number of shares '000	Nominal value RM'000	Cash flow hedge reserve* RM'000	Retained earnings RM'000	
At 1 January 2010		285,530	142,765	—	114,958	257,723
Profit for the financial year ended 31 December 2010		—	—	—	736,381	736,381
Other comprehensive income:						
– changes in fair value of cash flow hedges, net of tax	21	—	—	(592)	—	(592)
– defined benefit plan actuarial loss	24	—	—	—	(31)	(31)
– deferred tax on fair value changes on cash flow hedges	14	—	—	148	—	148
Total comprehensive income		285,530	142,765	(444)	851,308	993,629
Transaction with owners:						
Dividends for financial year ended 31 December 2009 – final	8	—	—	—	(177,029)	(177,029)
Dividends for financial year ended 31 December 2010 – first interim	8	—	—	—	(322,649)	(322,649)
– second interim	8	—	—	—	(182,739)	(182,739)
At 31 December 2010		285,530	142,765	(444)	168,891	311,212
At 1 January 2009		285,530	142,765	—	188,168	330,933
Profit for the financial year ended 31 December 2009		—	—	—	640,849	640,849
Other comprehensive income:						
– defined benefit plan actuarial loss	24	—	—	—	(234)	(234)
Total comprehensive income		285,530	142,765	—	828,783	971,548
Dividends for financial year ended 31 December 2008 – final		—	—	—	(217,003)	(217,003)
Dividends for financial year ended 31 December 2009 – first interim	8	—	—	—	(322,649)	(322,649)
– second interim	8	—	—	—	(174,173)	(174,173)
At 31 December 2009		285,530	142,765	—	114,958	257,723

* The Group has applied FRS 139 from 2010 onwards, as the standard does not require retrospective application as allowed under the transitional provisions of FRS 139.

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

CASH FLOW STATEMENTS

for the financial year ended 31 December 2010

	Note	Group		Company	
		Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Operating activities					
Cash receipts from customers		3,875,399	3,927,189	16,166	19,107
Cash paid to suppliers and employees		(2,760,759)	(2,751,683)	(3,003)	—
Dividends received from subsidiaries		—	—	942,605	725,897
Cash from operations	25	1,114,640	1,175,506	955,768	745,004
Income tax (paid)/refunded		(238,716)	(251,266)	(703)	19,842
Net cash flow from operating activities		875,924	924,240	955,065	764,846
Investing activities					
Property, plant and equipment					
– additions		(60,050)	(107,162)	(1,793)	(3,662)
– disposals		73,599	8,862	168	1,025
Computer software					
– additions		(4,344)	(1,805)	(4,344)	(1,757)
Disposals of assets held for sale		3,400	21,000	—	—
Interest income received		9,136	5,470	13	1,907
Net repayment from subsidiaries		—	—	18,675	58,279
Net cash flow from/(used in) investing activities		21,741	(73,635)	12,719	55,792
Financing activities					
Dividends paid to shareholders		(682,417)	(713,825)	(682,417)	(713,825)
Loan to subsidiary		—	—	—	(80,000)
Proceeds from issuance of medium-term notes		—	250,000	—	250,000
Repayment of medium-term notes		—	(250,000)	—	(250,000)
Interest expense paid		(27,311)	(27,481)	(27,311)	(27,481)
Net cash flow used in financing activities		(709,728)	(741,306)	(709,728)	(821,306)
Increase/(Decrease) in cash and cash equivalents		187,937	109,299	258,056	(668)
Cash and cash equivalents as at 1 January		168,686	59,387	461	1,129
Cash and cash equivalents as at 31 December	19	356,623	168,686	258,517	461

The accounting policies on pages 157 to 171 and the notes on pages 172 to 214 form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2010

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A. Basis of Preparation

The financial statements of the Group and the Company are prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia.

The financial statements of the Group and Company have been prepared under the historical cost convention, as modified by the revaluation of land and buildings unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results could differ.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 February 2011.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year. Subsidiaries are those corporations in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiaries are consolidated using the purchase method of accounting.

The cost of an acquisition is measured as fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair values of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

B. Changes in Accounting Policies

The new/revised accounting standards and amendments to published standards effective and applicable for the Group's and the Company's financial year beginning 1 January 2010 are as follows:

- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- FRS 7 Financial Instruments: Disclosures
- FRS 8 Operating Segments
- FRS 123 Borrowing Costs
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
- Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations
- FRS 101 Presentation of Financial Statements
- Amendments to FRS 117 Leases
- IC Interpretation 9 Reassessment of Embedded Derivatives
- IC Interpretation 10 Interim Financial Reporting and Impairment
- IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions
- IC Interpretation 13 Customer Loyalty Programmes
- IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Improvements to the following FRSs:
 - FRS 8 Operating Segments
 - FRS 110 Events after the Reporting Period
 - FRS 116 Property, Plant and Equipment
 - FRS 117 Leases
 - FRS 123 Borrowing Costs
 - FRS 136 Impairment of Assets
 - FRS 139 Financial Instruments: Recognition and Measurement

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Group and the Company require retrospective application other than:

- (a) FRS 139 Financial Instruments – As allowed under the transitional provisions of FRS 139, the Group has not applied the standard retrospectively.
- (b) IC Interpretation 10 – Applied prospectively to goodwill from the date it first applied FRS 136 and to investments in financial assets carried at cost from the date it first applied the measurement criteria of FRS 139.

B. Changes in Accounting Policies (Continued)

A summary of the impact of the new accounting standards, amendments to published standards and interpretations to existing standards on the financial statements of the Group and Company is set out below:

- (a) FRS 8 Operating Segments (effective for annual periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114₂₀₀₄ Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. As the Group's chief operating decision maker, the Group's Board of Directors, relies on internal reports which are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.
- (b) FRS 139 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. In accordance with the requirement of this standard, the Group assessed its derivatives to see if they qualify for hedge accounting, and following that, have designated its derivatives arising from forward foreign exchange contracts as cash flow hedges. The Group recognises the portion of the gain or loss on the hedging instrument that is determined to be effective hedge in other comprehensive income. The difference between the previous carrying amount and fair value of the derivatives as at the balance sheet date that are designated as hedging instruments has not been recognised as an adjustment to the balance of retained earnings at the beginning of the financial year in accordance with the transitional provisions of FRS 139.
- (c) FRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2010). FRS 7 provides information to users of financial statements about an entity's exposure to risk and how the entity manages these risks. This standard does not have any impact on the classification and valuation of financial instruments.
- (d) Amendments to FRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 101 requires changes in the format of the financial statements including the amounts directly attributable to shareholders in the primary statements, but does not affect the measurement of reported profit or equity. The Group has elected to show other comprehensive income in a separate statement from the income statement and hence, all owner changes in equity are presented in the consolidated statement of changes in equity, whereas non-owner changes in equity are shown in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the amendment to FRS 101.
- (e) Amendments to FRS 117 Leases (effective for annual periods beginning on or after 1 January 2010). The amendment to FRS 117 requires entities with existing leases of land and buildings (combined) to reassess the classification of land as a finance or operating lease. The Group has reclassified the existing leasehold land to property, plant and equipment following this reassessment, with no effect on reported profit or equity. However, as a result of the adoption of the Amendments to FRS 117, comparative balances have been restated as follows:

	As previously reported RM'000	Effects of changes in accounting policy RM'000	As restated RM'000
Group			
Property, plant and equipment	431,117	19,952	451,069
Leasehold land	19,952	(19,952)	—

B. Changes in Accounting Policies (Continued)

	As previously reported RM'000	Effects of changes in accounting policy RM'000	As restated RM'000
Company			
Property, plant and equipment	18,934	1,013	19,947
Leasehold land	1,013	(1,013)	—

The adoption of other interpretations and revisions to existing standards mandatory for annual periods beginning on or after 1 January 2010 did not result in significant changes in the reported profit or equity or on the disclosures in the financial statements.

A number of new standards, amendment to new standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, as set out below:

The revised FRS 3 Business Combinations (effective prospectively from 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. It is not expected to have a significant impact on the Group's and Company's financial statements.

The revised FRS 124 Related Party Disclosures (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

- The name of the government and the nature of their relationship;
- The nature and amount of each individually significant transactions; and
- The extent of any collectively significant transactions, qualitatively or quantitatively.

It is not expected to have a significant impact on the Group's and Company's financial statements.

Amendments to IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective from 1 July 2011) permits an entity to recognise the prepayments of contributions as an asset, rather than an expense in circumstances when the entity is subject to a minimum funding requirement and makes an early payment of contributions to meet those requirements. It is not expected to have a significant impact on the Group's and Company's financial statements.

B. Changes in Accounting Policies (Continued)

FRS 3 (effective from 1 January 2011)

- Clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by FRS.
- Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance with the guidance in FRS 3 (2005).

It is not expected to have a significant impact on the Group's and Company's financial statements.

FRS 101 Presentation of Financial Statements (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. It is not expected to have a significant impact on the Group's and Company's financial statements.

C. Revenue Recognition

Revenue earned from the sale of the Group's products is recognised upon passing of title to the customer, which generally coincides with their delivery and acceptance and after eliminating sales within the Group.

Revenue from sale of cigarettes, pipe tobaccos and cigars is presented at the invoiced value of goods sold, including all government duties and excluding sales taxes and trade discounts.

Other revenue earned by the Group and Company are recognised on the following basis:

- Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.
- Dividend income is recognised when the right to receive payment is established.
- Revenue from services rendered is recognised as and when the services are performed.

D. Property, Plant and Equipment

Property, plant and equipment are initially stated at cost. Freehold land is stated at its 1983 valuation and buildings are stated at their 1983 valuation less depreciation as the Directors have applied the transitional provisions of MASB Approved Accounting Standards No. 16 (Revised) Property, Plant and Equipment. Accordingly, these valuations have not been updated. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Company and the costs of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

D. Property, Plant and Equipment (Continued)

Freehold land is not depreciated as it has an infinite life. Depreciation on capital work in progress commences when the assets are ready for their intended use. Depreciation is provided to their residual values on all other property, plant and equipment on a straight line basis over their estimated useful lives, which are as follows:

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

Small value items are fully depreciated in the year of purchase.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the residual value of an asset increases to an amount equal or greater than the asset's carrying amount, the asset's depreciation charge is nil unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

E. Investment Property

Investment property comprises non-owner occupied residence, office and warehousing space which are idle. Investment property is stated at cost less accumulated depreciation and impairment losses.

Investment property comprising buildings are depreciated to their residual values on a straight line basis over their estimated useful lives of 20 to 44 years.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or when the investment property meets the criteria to be reclassified as Assets Held for Sale in accordance with FRS 5.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Likewise, when the conditions for impairment no longer exist after considering indications from both external and internal sources, a writeback on the asset values will be performed.

F. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Leasehold land and buildings under long term leases held for own use are classified as property, plant and equipment as they are finance leases, where substantially all the risks and rewards incidental to their ownership is transferred to the Group. The leasehold land and buildings are depreciated on a straight line basis over their lease terms.

G. Assets Held for Sale

Property, plant and equipment and investment property are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. These assets held for sale cease to be depreciated as their economic benefits are no longer consumed.

On disposal of an asset held for sale, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period of the disposal.

If there are changes to a plan of sale, the asset held for sale will be reclassified as property, plant and equipment or investment property with its carrying amount at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale and its recoverable amount at the date of the change to the plan of sale.

H. Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of the Group's share of the identifiable net assets at the date of acquisition.

The carrying amount of goodwill is reviewed for impairment, annually as well as more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

H. Intangible Assets (Continued)

(ii) Computer Software

Costs that are directly associated with identifiable and unique computer software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, and are not integral to other property, plant and equipment are recognised as intangible assets. These costs include the software development employee costs and an appropriate portion of relevant overheads. The computer software development costs recognised as assets are amortised upon completion of the computer software products on a straight line basis over their estimated useful lives of 3 years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

I. Investments in Subsidiaries

Investments in subsidiaries are shown at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

J. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined principally on a first-in first-out basis and in the case of manufactured cigarettes, comprises cost of materials, labour and manufacturing overheads. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and selling expenses.

K. Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Prepayments comprise expenditure incurred for benefits expected to arise after the balance sheet date. This includes payments for the forest plantation development project, where the amounts are carried at cost and expensed to the income statement to match the inflow of benefits accrued.

L. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with licensed financial institutions, bank overdrafts and short term highly liquid investments with original maturities of three months or less.

M. Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and other staff related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plan

The Group's contributions to the Employees Provident Fund are recognised as an expense in the income statement as incurred. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Defined benefit plan

The Group operates a defined benefit plan for employees who joined the Group prior to 1 January 2006, the assets of which are held in a separate trustee-administered fund. This fund is funded by payments from the relevant Group companies. The Group's retirement obligation is determined based on a triennial actuarial valuation (with annual updates) where the amount of the benefit that eligible employees have earned in return for their service in the current and prior years is estimated.

The liability in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date, reduced by the fair value of plan assets.

The defined benefit obligation, calculated using the Projected Unit Credit Method, is determined by an independent actuary, considering the estimated future cash outflows.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognised in full in the period they arise through retained earnings.

(iv) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy and is without realistic possibility of withdrawal.

(v) Share-based payments

A number of employees of the Group participate in equity-settled share-based compensation plans offered by British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed off over the vesting period, based on British American Tobacco p.l.c.'s estimate of awards that will eventually vest. Fair value is measured by the use of the Black-Scholes and Monte-Carlo pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, forfeiture and historical experience.

N. Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

O. Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

P. Taxation

Current tax expense is determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits. Tax expense is the aggregate amount included in the determination of profit for the period in respect of current tax and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits, allowance for doubtful debts and tax losses and unutilised capital allowances. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Q. Foreign Currencies

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Group's and Company's functional and presentation currency.

(ii) Foreign currency transactions and balances

Foreign currency transactions in the Group are accounted for at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Q. Foreign Currencies (Continued)

(iii) Foreign entities

Assets and liabilities of foreign subsidiaries are translated at closing rates for purposes of consolidation. Income statement items are translated at average rates during the financial year and resulting exchange differences are dealt with in equity for the financial year.

(iv) Closing rates

The principal closing rates used in translation of foreign currency amounts were as follows:

Foreign Currency	31.12.2010	31.12.2009
1 US Dollar	3.0835	3.4240
1 Pound Sterling	4.8277	5.5293
1 Euro	4.1367	4.9127

R. Financial Assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

- Available-for-sale investments: Available-for-sale investments are those non-derivative financial assets that cannot be classified as financial assets at fair value through profit or loss, loans and receivables or cash and cash equivalents;
- Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges;
- Loans and receivables: These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; and
- Cash and cash equivalents: Cash and cash equivalents comprise cash in hand, balances with licensed financial institutions, bank overdrafts and short term highly liquid investments with original maturities of three months or less.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and cash and cash equivalents are subsequently carried at amortised cost using the effective interest method.

R. Financial Assets (Continued)

Recognition and measurement (Continued)

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement in the period in which they arise.

Changes in the fair value of the “financial assets available-for-sale” category are recognised directly in other comprehensive income. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Dividend and interest income are included in the income statement with the Group’s right to receive payment is established.

Fair values for quoted investments are based on observable market prices.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include significant financial difficulty of the obligor, a breach of contract, or it becomes probable that the obligor will enter bankruptcy or other financial reorganisation.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The asset’s carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised, and subsequently measured, at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Fair value hedge: Hedges of the fair value of recognised assets or liabilities of a firm commitment;
- Cash flow hedge: Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Net investment hedge: Hedges of a net investment in a foreign operation.

R. Financial Assets (Continued)

Derivative financial instruments and hedging activities (Continued)

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

Changes in their fair values are recognised as follows:

- Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the income statement in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are recognised in the income statement in the same periods as the hedged item.
- Net investment hedges are accounted for similarly to cash flow hedges.
- For derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately recognised in the income statement.

S. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest expense relating to borrowings is reported within finance cost in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

T. Share Capital

Ordinary shares are classified as equity.

U. Dividends

Interim dividends are recognised as a liability in the period in which they are declared. Final dividends are recognised in the period approval of members is obtained.

V. Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group regards its Board of Directors as its chief operating decision maker, as the Board is responsible for allocating resources, assesses performance, and makes strategic decisions.

The Group is a single product business primarily engaged in the manufacture, importation and sale of cigarettes and other tobacco products in Malaysia, and this forms the focus of the Group's internal reporting systems. While the Group has clearly differentiated brands, segmentation within a wide portfolio of brands is not part of the regular internally reported financial information 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

1. General Information

The Company provides day-to-day management and administrative services to its subsidiaries which are principally engaged in the manufacture, importation and sale of cigarettes, pipe tobaccos and cigars.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The Company deems British American Tobacco p.l.c., which is incorporated in England and Wales, to be its ultimate holding company.

The address of the registered office and principal place of business of the Company is as follows:

Virginia Park, Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan

2. Revenue

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Sale of cigarettes, pipe tobaccos and cigars	3,965,448	3,923,421	—	—
Dividend income from unquoted subsidiaries	—	—	768,312	671,760
Management fee received from subsidiaries	—	—	5,814	10,825
Fee for usage of property, plant and equipment received from subsidiaries	—	—	10,351	14,786
	3,965,448	3,923,421	784,477	697,371

3. Profit from Operations

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09* (As restated) RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09* (As restated) RM'000
Profit from operations is arrived at:				
After charging:				
Write-off of subsidiary	—	—	500	—
Raw materials and consumables used	293,108	305,140	—	—
Auditors' remuneration:				
– statutory audit	183	183	60	60
– audit related fees	117	92	117	70
– non audit fees	—	121	—	6
Property, plant and equipment:				
– depreciation (Note 9)	56,813	71,821	4,935	5,618
– loss on disposal	—	1,274	1,949	170
– impairment (Note 9)	5,139	27,273	—	—
Investment property				
– depreciation (Note 10)	18	—	—	—
Computer software (Note 11)				
– amortisation	5,805	9,376	5,805	9,315
– impairment	753	1,111	753	1,111
Rental of land and buildings	4,768	6,611	—	—
Inventories written off	—	2,489	—	—
Bad debts written off	471	2,925	—	—
Allowance for doubtful debts	—	3,200	—	—
Provision for litigation	1,665	5,800	1,665	—
Net foreign exchange loss	—	—	768	—
Staff costs (Note 5)	148,066	127,757	28,478	23,436
And crediting:				
Property, plant and equipment:				
– gain on disposal	30,258	—	—	—
Gain on disposal of assets held for sale	—	362	—	—
Inventories written back	201	—	—	—
Recovery of impairment costs	4,403	13,115	—	—
Write-back of allowance for doubtful debts	105	—	—	—
Interest income on loan to subsidiary	—	—	5,040	1,892
Interest income on deposits	9,344	5,470	225	15
Net foreign exchange gain	1,597	4,706	—	653

* The restatement reflects the change in the Group's accounting policy for classification of existing leasehold land to property, plant and equipment as a result of the adoption of the Amendments to FRS 117.

4. Directors' Remuneration

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Fees	517	507	517	507
Other emoluments	7,288	10,164	5,318	7,829
	7,805	10,671	5,835	8,336

The estimated monetary value of benefits in kind provided to Directors of the Group and Company during the financial year amounted to RM417,811 (2009: RM705,368) and RM290,117 (2009: RM598,604) respectively.

Share-based payments made to certain Directors of the Group and Company (during their employment with the Group) in the financial year are by way of their participation in employee share schemes (Note 30) offered by British American Tobacco p.l.c.

Details of the movements of certain Directors' equity-settled share-based payment arrangements during the year ended 31 December 2010, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows, representing costs incurred by the Group and Company during the tenure of the Directors' service with the Group and Company:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.10	Awarded in 2010	Vested in 2010	Other movements*	At 31.12.10
Executive Directors					
Deferred Share Bonus Scheme	9,445	5,236	(1,534)	—	13,147
International Share Reward Scheme	168	89	—	—	257
	9,613	5,325	(1,534)	—	13,404

4. Directors' Remuneration (Continued)

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

Grand price	Number of ordinary shares of 25p each in British American Tobacco p.l.c.				
	At 1.1.10	Awarded in 2010	Vested in 2010	Other movements*	At 31.12.10
£5.98	7,392	—	—	—	7,392
£8.09	5,163	—	—	10,856	16,019
£10.37	—	—	—	9,244	9,244
£14.34	—	—	—	8,642	8,642
£15.41	6,851	—	(1,673)	8,517	13,695
£19.03	10,289	—	—	8,635	18,924
£15.79	14,386	—	—	14,098	28,484
£22.58	—	20,887	—	—	20,887
	44,081	20,887	(1,673)	59,992	123,287

* Other movements relate to changes due to movement of Directors during the financial year.

5. Staff Costs

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Wages, salaries and bonuses	118,315	92,817	23,603	15,108
Defined contribution plan	22,236	17,793	2,665	3,101
Voluntary redundancy package	1,477	8,300	277	1,200
Other staff related expenses	6,038	8,847	1,933	4,027
	148,066	127,757	28,478	23,436

The Group voluntarily provided additional Employees Provident Fund (EPF) contributions over the statutory requirement for a significant number of existing employees who participate in a defined contribution scheme offered by the Group.

Included in staff cost is an amount for other emoluments as part of Directors' remuneration disclosed in Note 4 to the financial statements.

Staff costs recharged by the Company to the subsidiaries amounted to RM21,596,531 (2009: RM12,479,945).

6. Tax Expense

The tax charge on the profit for the financial year consists of the following:

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
In respect of current year				
Current tax				
– Malaysian income tax	238,646	276,193	922	12,437
– Foreign tax	24	33	—	—
Deferred tax (Note 14 (i))	3,559	(10,792)	4,502	(3,542)
In respect of prior years				
(Over)/Under provision in respect of prior years				
– Malaysian income tax	(14,159)	(6,906)	—	1,192
	228,070	258,528	5,424	10,087

The average effective tax rates of the Group and Company are reconciled to the statutory tax rate as follows:

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Statutory tax rate	25%	25%	25%	25%
Expenses not deductible for tax purposes	2%	1%	2%	—
Utilisation of reinvestment allowances	-2%	—	—	—
Income not subject to tax	—	—	-26%	-25%
Changes in tax rate	—	—	—	—
Over provision in respect of prior years	-1%	-1%	—	—
Section 108 tax credit shortfall	—	1%	—	2%
Average effective tax rate	24%	26%	1%	2%

7. Earnings Per Share

Earnings per share is calculated by dividing the profit for the financial year by the number of ordinary shares in issue.

	Group	
	Year ended 31.12.10	Year ended 31.12.09
Profit for the financial year (RM'000)	731,111	746,784
Number of ordinary shares of 50 sen each in issue ('000)	285,530	285,530
Earnings per share (sen)	256.1	261.5

8. Dividends

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

	Group and Company					
	Year ended 31.12.10			Year ended 31.12.09		
	Gross per share Sen	Net per share Sen	Amount of dividend RM'000	Gross per share Sen	Net per share Sen	Amount of dividend RM'000
First interim dividend	113.0	113.0	322,649	113.0	113.0	322,649
Second interim dividend	64.0	64.0	182,739	61.0	61.0	174,173
Third interim dividend	63.0	63.0	179,884	—	—	—
Proposed final dividend, tax exempt	—	—	—	62.0	62.0	177,029
	240.0	240.0	685,272	236.0	236.0	673,851

The first and second 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 third interim dividend of 63 sen per share at the Board of Directors' meeting on 22 February 2011 amounting to RM179,883,900, in respect of the financial year ended 31 December 2010 which will be paid on 23 March 2011 to shareholders registered in the Company's Register of Members at the close of business on 10 March 2011. These financial statements do not reflect the third interim dividend which will be accounted for in the financial year ending 31 December 2011.

The directors do not recommend a final dividend in respect of the financial year ended 31 December 2010.

9. Property, Plant and Equipment

Group	Land and Buildings* RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
Net book value at 1 January 2009 as previously stated	91,603	222,311	23,976	40,177	60,557	438,624
Reclassification from leasehold land	20,455	—	—	—	—	20,455
Net book value at 1 January 2009 as restated	112,058	222,311	23,976	40,177	60,557	459,079
Additions	217	1,389	9,521	4,020	92,015	107,162
Disposals	—	(2,322)	(773)	(7,041)	—	(10,136)
Impairment	(500)	(26,773)	—	—	—	(27,273)
Reclassifications	—	103,298	2,863	—	(106,161)	—
Depreciation charge	(4,188)	(30,156)	(28,921)	(8,556)	—	(71,821)
Transfer to investment property (Note 10)	(1,654)	—	—	—	—	(1,654)
Transfer to assets held for sale (Note 16)	(2,837)	(1,451)	—	—	—	(4,288)
Net book value at 31 December 2009*	103,096	266,296	6,666	28,600	46,411	451,069
Additions	172	7,630	2,806	3,577	45,865	60,050
Disposals	(20,377)	(3,984)	(90)	(1,376)	(17,514)	(43,341)
Impairment	—	(5,139)	—	—	—	(5,139)
Reclassifications	163	33,119	26,978	—	(60,260)	—
Depreciation charge	(2,912)	(29,849)	(15,653)	(8,399)	—	(56,813)
Net book value at 31 December 2010	80,142	268,073	20,707	22,402	14,502	405,826

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

9. Property, Plant and Equipment (Continued)

Group	Land and Buildings* RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
At 31 December 2009*						
Cost	172,418	499,044	152,361	53,171	46,411	923,405
Accumulated depreciation and impairment	(69,322)	(232,748)	(145,695)	(24,571)	—	(472,336)
Net book value	103,096	266,296	6,666	28,600	46,411	451,069
At 31 December 2010						
Cost	151,026	500,581	170,738	53,197	14,502	890,044
Accumulated depreciation and impairment	(70,884)	(232,508)	(150,031)	(30,795)	—	(484,218)
Net book value	80,142	268,073	20,707	22,402	14,502	405,826

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

9. Property, Plant and Equipment (Continued)

Company	Land and Buildings* RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
Net book value at 1 January 2009 as previously stated	8,376	778	7,527	6,533	1,083	24,297
Reclassification from leasehold land	1,109	—	—	—	—	1,109
Net book value at 1 January 2009 as restated	9,485	778	7,527	6,533	1,083	25,406
Additions	—	266	1,875	747	774	3,662
Disposals	—	—	(37)	(1,158)	—	(1,195)
Reclassifications	—	—	1,083	—	(1,083)	—
Depreciation charge	(328)	(66)	(4,255)	(969)	—	(5,618)
Transfer to a subsidiary	(358)	—	—	—	—	(358)
Transfer to assets held for sale (Note 16)	(1,950)	—	—	—	—	(1,950)
Net book value at 31 December 2009*	6,849	978	6,193	5,153	774	19,947
Additions	—	—	1,597	196	—	1,793
Disposals	(24)	(31)	(22)	(161)	—	(238)
Reclassifications	—	—	774	—	(774)	—
Depreciation charge	(214)	(67)	(3,612)	(1,042)	—	(4,935)
Net book value at 31 December 2010	6,611	880	4,930	4,146	—	16,567

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

9. Property, Plant and Equipment (Continued)

Company	Land and Buildings* RM'000	Machinery and Equipment RM'000	Furniture and Fittings RM'000	Motor Vehicles RM'000	Capital Work In Progress RM'000	Total RM'000
At 31 December 2009*						
Cost/Valuation	10,974	1,548	27,505	7,359	774	48,160
Accumulated depreciation	(4,125)	(570)	(21,312)	(2,206)	—	(28,213)
Net book value	6,849	978	6,193	5,153	774	19,947
At 31 December 2010						
Cost/Valuation	10,476	1,511	25,349	7,149	—	44,485
Accumulated depreciation	(3,865)	(631)	(20,419)	(3,003)	—	(27,918)
Net book value	6,611	880	4,930	4,146	—	16,567

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

9. Property, Plant and Equipment (Continued)

Group	Freehold Land Cost RM'000	Leasehold Land Valuation RM'000	Buildings		Total Land and Buildings* RM'000
			Cost RM'000	Valuation RM'000	
Net book value at 1 January 2009 as previously stated	105	—	91,251	247	91,603
Reclassification from leasehold land	—	20,455	—	—	20,455
Net book value at 1 January 2009 as restated	105	20,455	91,251	247	112,058
Additions	—	—	217	—	217
Impairment	—	—	(500)	—	(500)
Depreciation charge	—	(405)	(3,536)	(247)	(4,188)
Transfer to investment property (Note 10)	—	—	(1,654)	—	(1,654)
Transfer to assets held for sale	—	(98)	(2,739)	—	(2,837)
Net book value at 31 December 2009*	105	19,952	83,039	—	103,096
Additions	—	—	172	—	172
Reclassifications	—	—	163	—	163
Depreciation charge	—	(401)	(2,511)	—	(2,912)
Disposals	—	(1,214)	(19,163)	—	(20,377)
Net book value at 31 December 2010	105	18,337	61,700	—	80,142
At 31 December 2009*					
Cost	105	28,948	143,365	—	172,418
Accumulated depreciation and impairment	—	(8,996)	(60,326)	—	(69,322)
Net book value	105	19,952	83,039	—	103,096
At 31 December 2010					
Cost/Valuation	105	27,521	123,400	—	151,026
Accumulated depreciation and impairment	—	(9,184)	(61,700)	—	(70,884)
Net book value	105	18,337	61,700	—	80,142

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

9. Property, Plant and Equipment (Continued)

Company	Freehold Land Cost RM'000	Leasehold Land Valuation RM'000	Buildings		Total Land and Buildings* RM'000
			Cost RM'000	Valuation RM'000	
Net book value at 1 January 2009 as previously stated	105	—	8,114	157	8,376
Reclassification from leasehold land	—	1,109	—	—	1,109
Net book value at 1 January 2009 as restated	105	1,109	8,114	157	9,485
Depreciation charge	—	(23)	(148)	(157)	(328)
Transfer to a subsidiary	—	—	(358)	—	(358)
Transfer to assets held for sale	—	(73)	(1,877)	—	(1,950)
Net book value at 31 December 2009*	105	1,013	5,731	—	6,849
Depreciation charge	—	(22)	(192)	—	(214)
Disposals	—	(24)	—	—	(24)
Net book value at 31 December 2010	105	967	5,539	—	6,611
At 31 December 2009*					
Cost/Valuation	105	1,461	9,408	—	10,974
Accumulated depreciation	—	(448)	(3,677)	—	(4,125)
Net book value	105	1,013	5,731	—	6,849
At 31 December 2010					
Cost/Valuation	105	1,435	8,936	—	10,476
Accumulated depreciation	—	(468)	(3,397)	—	(3,865)
Net book value	105	967	5,539	—	6,611

* The 2009 balances have been restated to reflect the change in the Group's accounting policy for classification of leasehold land required by FRS 117 Leases, where the effects of the change are detailed in the Summary of Significant Accounting Policies.

Certain buildings were revalued by the Directors on 1 July 1983 based upon independent professional valuation using fair market value on a current use basis.

Additions subsequent to this revaluation are stated at cost.

The net book value of revalued land of the Group and Company that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation is nil.

10. Investment Property

	Group	
	2010 RM'000	2009 RM'000
Net book value at 1 January	1,654	—
Transfer from property, plant and equipment (Note 9)	—	1,654
Depreciation	(18)	—
Net book value at 31 December	1,636	1,654
Cost	1,718	1,718
Accumulated depreciation	(82)	(64)
Net book value	1,636	1,654
Fair value of investment property	1,636	1,654

The Group's properties at Pasir Putih, Kelantan and at Mukim Wakaf Delima, Kelantan were transferred to Investment Properties on 31 December 2009. These properties are not occupied by the Group and are idle.

11. Computer Software

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Net book value at 1 January	6,550	15,232	6,550	15,086
Additions	4,344	1,805	4,344	1,757
Amortisation charge	(5,805)	(9,376)	(5,805)	(9,315)
Impairment	(753)	(1,111)	(753)	(1,111)
Transfer from subsidiary	—	—	—	133
Net book value at 31 December	4,336	6,550	4,336	6,550
Cost	33,926	29,582	33,926	29,581
Accumulated amortisation and impairment	(29,590)	(23,032)	(29,590)	(23,031)
Net book value	4,336	6,550	4,336	6,550

12. Goodwill

	Group	
	2010 RM'000	2009 RM'000
Net book value at 31 December	411,618	411,618

Goodwill arose from the acquisition of the business of Malaysian Tobacco Company Berhad (MTC), which represents the cash generating units, and represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the net assets of the subsidiary companies (i.e. Commercial Marketers and Distributors Sdn. Bhd. (CMD) for the marketing business and Tobacco Blenders and Manufacturers Sdn. Bhd. (TBM) for the tobacco manufacturing business) acquired on 2 November 1999, the date of acquisition.

The carrying amount of goodwill is reviewed for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating units to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculations. The key assumptions for the recoverable amount of all units are management's current estimates of net cash flows over a period of 5 years (2009: 5 years) based on historical growth rate, taking into account industry developments and at the pre-tax discount rate of 6.46% (2009: 6.86%). No impairment charges were recognised in 2010 (2009: Nil) and no significant difference in the recoverable amount is expected should the discounted cash flows change by 5% (2009: 5%).

13. Subsidiaries

	Company	
	2010 RM'000	2009 RM'000
Unquoted investments, at cost	1,024,456	1,024,956
Impairment losses	(2,067)	(2,067)
	1,022,389	1,022,889

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

Incorporated in Malaysia

Operating

Principal Activities

Commercial Importers and Distributors Sdn. Bhd.	Investment holding
Commercial Marketers and Distributors Sdn. Bhd.	Marketing and importation of cigarettes, pipe tobaccos and cigars
Rothmans Brands Sdn. Bhd.	Holding of trademarks
The Leaf Tobacco Development Corporation of Malaya Sdn. Bhd.	Purchase of tobacco leaf on behalf of a subsidiary
Tobacco Importers and Manufacturers Sdn. Bhd.	Manufacture and sale of cigarettes and other tobacco related products

13. Subsidiaries (Continued)

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

Incorporated in Malaysia (Continued)

Non-operating

Principal Activities

Contemporary Force Sdn. Bhd.	Dormant
Lucky Strike Originals Sdn. Bhd.	Dormant
Tobacco Blenders and Manufacturers Sdn. Bhd.	Dormant

Incorporated in Negara Brunei Darussalam

Operating

Principal Activities

Commercial Marketers and Distributors Sdn. Bhd.*	(Provision of advertising and promotional services)
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* The financial statements were not audited by PricewaterhouseCoopers, Malaysia.

14. Deferred Tax

		Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deferred tax assets					
At 1 January		19,295	4,978	8,520	4,978
(Charged)/Credited to income statement	Note 14(i)	(4,137)	14,317	(4,502)	3,542
(Charged)/Credited to statement of comprehensive income	Note 14(ii)	—	—	148	—
At 31 December		15,158	19,295	4,166	8,520
Represented by:					
Excess of depreciation over capital allowances		2,309	7,667	2,309	8,520
Provisions		12,849	11,628	1,709	—
Cash flow hedge		—	—	148	—
		15,158	19,295	4,166	8,520

14. Deferred Tax (Continued)

		Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deferred tax liabilities					
At 1 January		46,752	43,287	—	—
Charged/(Credited) to income statement	Note 14(i)	(578)	3,525	—	—
Charged/(Credited) to statement of comprehensive income	Note 14(ii)	(4,369)	(60)	—	—
As at 31 December		41,805	46,752	—	—
Represented by:					
Excess of capital allowances over depreciation		41,860	42,151	—	—
Revalued land and buildings		311	4,222	—	—
Cash flow hedge		(458)	—	—	—
Provisions		92	379	—	—
		41,805	46,752	—	—

The amounts above have been reconciled to the income statements and statements of changes in equity as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(i) Charged/(Credited) to income statement				
Charged/(Credited) in respect of deferred tax assets	4,137	(14,317)	4,502	(3,542)
(Credited)/Charged in respect of deferred tax liabilities	(578)	3,525	—	—
Net charge/(credit) to income statement (Note 6)	3,559	(10,792)	4,502	(3,542)
(ii) Credited to statement of comprehensive income				
Credited in respect of deferred tax liabilities & assets	(4,369)	(60)	(148)	—
Net credit to statement of comprehensive income	(4,369)	(60)	(148)	—

14. Deferred Tax (Continued)

The amount of unutilised tax losses (which has no expiry date) for which no deferred tax asset is recognised in the balance sheet of the Group was as follows:

	Group	
	2010 RM'000	2009 RM'000
Tax losses	—	5,212
Deferred tax asset not recognised at 25%	—	1,303

15. Loan to a Subsidiary

On 17 August 2009, the Company issued a 5-year RM80,000,000 unsecured loan to its subsidiary, Commercial Marketers and Distributors Sdn. Bhd. bearing interest of 6.3% per annum receivable semi annually. The loan is receivable in a lump sum in 2014. The fair value of the loan to subsidiary approximates the carrying amount of the loan.

16. Assets Held for Sale

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	4,288	20,638	1,950	—
Transfer from property, plant and equipment (Note 9)	—	4,288	—	1,950
Disposed during the year	(3,400)	(20,638)	(1,950)	—
At 31 December	888	4,288	—	1,950

The changes in assets held for sale during the year, which were transferred from property, plant and equipment, consist of the following:

- In January 2010, the Group disposed two of its machines which were no longer in use to its related companies at the machines' current carrying values with no material gains or losses arising.
- In June 2010, the Group and Company completed the disposal of its property at Keningau, Sabah for a consideration of RM1,950,000 with no material gains or losses arising. The Company registered a loss on disposal, as the proceeds arising from the sale were recognised in a separate subsidiary of the Group.
- The Group's management has undertaken an active programme to locate buyers for its properties at Changloon, Kedah. The proposed selling price approximates its current carrying value.

17. Inventories

	Group	
	2010 RM'000	2009 RM'000
At cost		
Raw materials	82,895	91,572
Work-in-progress	6,772	7,804
Finished goods	99,484	110,362
Consumable stores	4,421	4,520
	193,572	214,258

18. Receivables

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade receivables	92,099	97,104	—	—
Impairment for doubtful debts	(3,095)	(3,200)	—	—
Trade receivables (net)	89,004	93,904	—	—
Dividends due from subsidiaries	—	—	—	174,293
Amounts due from related companies	28,356	42,373	102,666	62,634
Other receivables	641	2,586	—	—
Deposits	1,623	1,853	342	537
Prepayments	59,865	23,996	1,493	345
	179,489	164,712	104,501	237,809

Credit terms of trade receivables range from 1 to 60 days (2009: 1 to 60 days).

As at 31 December 2010, trade receivables of RM48,043,000 (2009: RM39,627,000) were past due their contractual payment date but are considered to be recoverable. These relate to a number of external parties where there is no expectation of default. The age analysis of these trade receivables is as follows:

	Group	
	2010 RM'000	2009 RM'000
Past due within 1 month	25,434	11,583
Past due more than 1 month	22,609	28,044
	48,043	39,627

18. Receivables (Continued)

Movements of the allowance for doubtful debts during the year are as follows:

	Group	
	2010 RM'000	2009 RM'000
At 1 January	3,200	—
Provision for receivables impairment	—	3,200
Unused amounts reversed	(105)	—
At 31 December	3,095	3,200

The creation and release of provision for impaired receivables have been included in “distribution and marketing costs” in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within receivables do not contain impaired assets.

The Group's amounts due from related companies arose mainly from export sales which have a credit term of 60 days (2009: 60 days) and prepayments for leaf purchases which are not subject to any terms of repayment. These amounts are unsecured and interest-free.

The Company's amounts due from related companies arose mainly from payments made on behalf of certain related companies. These amounts are unsecured, interest-free and not subject to any terms of repayment.

Amounts due from related companies of the Group are mainly denominated in US Dollars. All other receivables of the Group and Company are mainly denominated in Ringgit Malaysia.

Approximately 60% of the Group's trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

There is no material difference between the carrying value of receivables and their fair value, due to the short-term duration of the receivables.

The maximum exposure to credit risk at the reporting date is the total carrying value of receivables disclosed above. The Group does not hold any collateral as security.

19. Deposits, Cash and Bank Balances

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits with licensed banks	275,020	155,020	210,000	—
Cash and bank balances	81,603	13,666	48,517	461
	356,623	168,686	258,517	461
The currency exposure profile of deposits, cash and bank balances is as follows:				
– Ringgit Malaysia	344,107	155,790	258,030	461
– US Dollar	6,533	6,611	487	—
– Brunei Dollar	5,983	6,285	—	—
	356,623	168,686	258,517	461
The weighted average interest rates of deposits with licensed banks that were effective during the year (per annum)				
	2.4%	2.0%	2.6%	—

Deposits of the Group have an average maturity period of 30 days (2009: 31 days).

The carrying value of deposits, cash and bank balances approximates their fair values.

20. Payables

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade payables	119,407	98,916	—	—
Trade accruals	18,428	16,079	—	—
Amounts due to subsidiaries	—	—	491,012	437,343
Amounts due to related companies	18,783	6,170	—	—
Other payables	157,590	97,923	35,086	28,996
	314,208	219,088	526,098	466,339

20. Payables (Continued)

The currency exposure profile of trade payables is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Ringgit Malaysia	113,790	98,639	—	—
US Dollar	81	244	—	—
Pound Sterling	33	33	—	—
Euro	5,435	—	—	—
Others	68	—	—	—
	119,407	98,916	—	—

The currency exposure profile of amounts due to related companies is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Ringgit Malaysia	18,593	5,925	—	—
US Dollar	91	245	—	—
Pound Sterling	37	—	—	—
Others	62	—	—	—
	18,783	6,170	—	—

All other amounts within payables are mostly denominated in Ringgit Malaysia.

Credit terms of trade payables and suppliers of property, plant and equipment granted to the Group vary from no credit to 120 days (2009: no credit to 120 days).

Amounts due to subsidiaries have no fixed terms of repayment, are unsecured and interest-free. However, the subsidiaries have indicated that the amounts due will not be recalled within the next 12 months.

Amounts due to related companies are repayable within credit terms granted of 60 days (2009: 60 days), are unsecured and interest-free.

Included in the Group's other payables is a provision made in respect of litigation amounting to approximately RM18,527,000 (2009: RM16,800,000).

21. Derivative Financial Instruments

	Group		Company	
	2010 Assets RM'000	2010 Liabilities RM'000	2010 Assets RM'000	2010 Liabilities RM'000
Forward foreign exchange contracts – cash flow hedges	—	1,832	—	592

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. These derivatives are classified as Level 2 financial instruments in accordance with FRS 7 classification hierarchy.

The Group's cash flow hedges are principally in respect of future payment for leaf, wrapping materials, machinery and services over the next 12 months. The Company's cash flow hedges are principally in respect of future payments of services over the next 12 months. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the timing of when the hedged item will affect profit or loss, which are expected to occur at various dates during the next 12 months.

Gains and losses recognised in other comprehensive income on forward foreign exchange contracts as of 31 December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset. There was no ineffective portion arising from derivative financial instruments during the year.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were as follows:

Hedged item	Currency to be paid	RM'000 equivalent	Average contracted rate
Group			
Future payment for leaf, wrapping materials, machinery and services over the next 12 months			
USD 9,000,000	US Dollar	28,993	1 USD = RM3.2215
GBP 6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130
EUR 7,290,000	Euro	30,027	1 EUR = RM4.1189
Company			
Future payment for services over the next 12 months			
GBP 6,250,000	Pound Sterling	30,706	1 GBP = RM4.9130

22. Borrowings (Interest Bearing)

(a) The Group's and Company's borrowings as at 31 December 2010 are as follows:

- (i) RM400,000,000 5-year unsecured Medium-Term Notes 2007/2012 with a coupon rate of 4.05% per annum, maturing on 21 September 2012 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme); and
- (ii) RM250,000,000 5-year unsecured Medium-Term Notes 2009/2014 with a coupon rate of 4.48% per annum, maturing on 15 August 2014 pursuant to an Issuance Programme of up to RM700 million nominal value Medium-Term Notes (MTNs Programme).

(b) (i) Maturity of the Group and Company borrowings is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Total borrowings				
Medium-term notes	650,000	650,000	650,000	650,000
Maturity of borrowings:				
Within one year	—	—	—	—
More than 1 year and less than 2 years	400,000	—	400,000	—
More than 2 years and less than 5 years	250,000	650,000	250,000	650,000

(ii) Classification of the Group and Company borrowings is as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unsecured				
Current				
Medium-term notes	—	—	—	—
Non current				
Medium-term notes	650,000	650,000	650,000	650,000

(c) The Group and Company's borrowings are denominated in Ringgit Malaysia.

(d) The fair value of borrowings are detailed in Note 29(f).

23. Share Capital

	Group and Company	
	2010 RM'000	2009 RM'000
Authorised		
770,000,000 Ordinary shares of 50 sen each	385,000	385,000
Issued and fully paid		
285,530,000 Ordinary shares of 50 sen each	142,765	142,765

24. Post Employment Benefit Obligations

Defined Benefit Plan

The Group operates a defined benefit plan for its eligible employees in Malaysia (who joined the Group prior to 1 January 2006), the assets of which are held in a separate trustee administered fund. The Company and certain subsidiaries in the Group make contributions to the British American Tobacco Malaysia Retirement Scheme, a tax approved fund independent of the Group.

The defined benefit plan is valued by an independent actuary using the Projected Unit Credit Method. The latest actuarial valuation that was conducted on 31 December 2009 showed that the value of the net assets held in the fund together with the book provisions in the Group's financial statements, adequately met the actuarial liabilities arising from the defined benefit plan as at 31 December 2009.

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Present value of defined benefit obligations	10,882	12,256	5,972	5,507
Fair value of plan assets	(6,765)	(6,213)	(3,618)	(1,444)
Net liability	4,117	6,043	2,354	4,063

24. Post Employment Benefit Obligations (Continued)

Defined Benefit Plan (Continued)

The amounts recognised in the income statement under other operating expenses are as follows:

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Current service cost	(679)	(653)	(292)	(113)
Interest cost	(703)	(705)	(352)	(62)
Expected return on plan assets	143	167	41	25
Total, included within staff cost	(1,239)	(1,191)	(603)	(150)

Movements in post employment benefit obligations were as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	6,043	5,297	4,063	100
Charge for the year	1,239	1,191	603	150
Contributions paid	(646)	(658)	(263)	(181)
Benefits paid	(2,609)	—	—	—
Transfer from subsidiary	—	—	(2,080)	3,760
Actuarial loss recognised	90	213	31	234
At 31 December	4,117	6,043	2,354	4,063

Changes in the present value of defined benefit obligations were as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	12,256	11,027	5,507	983
Service cost	679	653	292	113
Interest cost	703	705	352	62
Benefits paid	(2,842)	(287)	(209)	—
Liability assumed in intercompany transfer	—	—	—	4,123
Actuarial loss due to actual experience	86	158	30	226
At 31 December	10,882	12,256	5,972	5,507
Defined benefit obligations expected to be payable in the next year	444	2,892	183	176

24. Post Employment Benefit Obligations (Continued)

Defined Benefit Plan (Continued)

Changes in the fair value of plan assets were as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At 1 January	6,213	5,730	1,444	883
Expected return on plan assets	143	167	41	25
Contributions by employer	646	658	263	181
Benefits paid	(233)	(287)	(209)	—
Assets acquired from intercompany transfer	—	—	2,080	363
Actuarial loss on plan assets	(4)	(55)	(1)	(8)
At 31 December	6,765	6,213	3,618	1,444
Contribution payable in the next year	631	684	298	292

The developments of actuarial gains and losses as at 31 December were as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Actuarial loss from prior year	508	295	271	37
Actuarial loss recognised in year	90	213	31	234
Cumulative actuarial loss recognised	598	508	302	271

Principal actuarial assumptions used at the balance sheet date in respect of the Group's and the Company's defined benefit plan were as follows:

	2010 %	2009 %
Discount rate	6.5	6.5
Expected return on plan assets	3.0	3.0
Expected rate of salary increases	6.0	6.0

The expected rate of return on scheme assets in 2010 is derived from an investment allocation of 20% into Malaysian Government bonds, and 80% into money market instruments yielding annual rates of investment returns of 4.5% and 2.5% respectively.

25. Cash from Operations

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Profit for the financial year	731,111	746,784	736,381	640,849
Adjustments for:				
Write off of subsidiary	—	—	500	—
Defined benefit plan charge (Note 24)	1,239	1,191	603	150
Interest income	(9,344)	(5,470)	(5,265)	(1,907)
Property, plant and equipment				
– depreciation	56,813	71,821	4,935	5,618
– impairment	5,139	27,273	—	—
– (gain)/loss on disposal	(30,258)	1,274	1,949	170
Investment property				
– depreciation	18	—	—	—
Computer software				
– amortisation	5,805	9,376	5,805	9,315
– impairment	753	1,111	753	1,111
Gain on disposal of assets held for sale	—	(362)	—	—
Bad debts written off	471	2,925	—	—
(Writeback)/Allowance for doubtful debts	(105)	3,200	—	—
Inventories (written back)/written off	(201)	2,489	—	—
Provision for litigation	1,665	5,800	1,665	—
Interest expense	27,400	27,823	27,400	27,823
Tax expense	228,070	258,528	5,424	10,087
Changes in working capital:				
– inventories	20,887	8,211	—	—
– receivables	(14,936)	86,978	173,553	51,455
– payables	90,113	(73,446)	2,065	333
Cash from operations	1,114,640	1,175,506	955,768	745,004

26. Capital Commitments

Capital expenditure not provided for in the financial statements are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Property, plant and equipment:				
– Authorised and contracted for	13,543	—	29	—
– Authorised but not contracted for	16,793	1,689	5	1,661
	30,336	1,689	34	1,661

27. Significant Related Party Disclosures

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The related party transactions described below were carried out on terms generally available to unrelated parties unless otherwise stated.

The Group's and Company's transactions are with member corporations of British American Tobacco p.l.c. (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company).

(a) Group's transactions

	Group	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(i) Sale of goods		
Sale of cigarettes and tobacco products to:		
– British American Tobacco Company (HK) Ltd.	3,971	4,251
– Rothmans Far East B.V.	11,018	12,907
– Rothmans Far East B.V. Japan (a division of Rothmans Far East B.V.)	—	16
– British American Tobacco Marketing (Singapore) Pte. Ltd.	29,556	30,796
– British American Tobacco China Ltd.	988	1,563
– British American Tobacco International Ltd.	4,835	8,949
– British American Tobacco Korea Manufacturing Ltd.	19,691	30,189
– British American Tobacco Taiwan Logistics Ltd.	—	8,549
– India Tobacco Company Ltd.	1,005	—
	71,064	97,220

27. Significant Related Party Disclosures (Continued)

(a) Group's transactions (Continued)

	Group	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(ii) Purchase of goods		
Purchase of leaf, cigarette packaging and wrapping materials and tobacco products from:		
– British American Tobacco Far East Leaf Ltd.	—	33
– British American Tobacco Australasia Ltd.	—	109
– British American Tobacco Marketing (Singapore) Pte. Ltd.	9,468	28,464
– British American Tobacco (Germany) GmbH	1,653	17,936
– British American Tobacco (GLP) Ltd.	57,046	36,443
– PT Export Leaf Indonesia	45,059	23,713
– British American Tobacco Cambodia Ltd.	3,863	1,426
– PT Bentoel Prima	1	—
– British American Tobacco Mexico SA De CV	31	—
	117,121	108,124
Purchase of cigarettes and tobacco products from:		
– British American Tobacco International Ltd.	141	3,786
– British American Tobacco Groningen (Demand Management) B.V.	1,467	892
– British American Tobacco (U.K. & Export) Ltd.	49	699
– British American Tobacco Marketing (Singapore) Pte. Ltd.	190	—
	1,847	5,377

The Group receives various services from member corporations of the British American Tobacco p.l.c. which includes procurement, product testing and development services.

	Group	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(iii) Procurement of services		
Procurement of information technology services from:		
– British American Shared Services Ltd.	16,945	13,199
– British American Tobacco Asia-Pacific Region Ltd.	434	1,621
	17,379	14,820

27. Significant Related Party Disclosures (Continued)

(a) Group's transactions (Continued)

	Group	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(iv) Technical and advisory (includes share-based payment charges)		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	52,397	45,752
– British American Tobacco International Ltd.	1,643	1,846
– British American Tobacco Asia Pacific Treasury Pte. Ltd.	390	411
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	8,156	6,417
– British American Tobacco (U.K. & Export) Ltd.	—	193
– British American Tobacco Asia-Pacific Region Ltd.	5,461	8,140
	68,047	62,759
(v) Royalties		
Royalties paid/payable to:		
– Dunhill Tobacco of London Ltd.*	72,824	71,705
– Benson & Hedges (Overseas) Limited*	5,193	5,400
– British American Tobacco (Investments) Ltd.	8,843	9,221
– The American-Cigarette Company (Overseas) Ltd.**	2,711	2,167
– St. Regis Tobacco Corporation Ltd.**	343	384
	89,914	88,877
(vi) Sale and purchase of equipment		
(Sale)/purchase of equipment (to)/from:		
– British American Tobacco Marketing (Singapore) Pte. Ltd.	7,075	90,184
– British American Tobacco Asia Pacific Region Ltd.	1,328	659
– British American Shared Services Ltd.	—	4,631
– Pakistan Tobacco Company Ltd.	(249)	—
– British American Tobacco Bangladesh Company Ltd.	(13,646)	—
– Souza Cruz Overseas S.A.	(1,029)	—
– PT Bentoel Prima	(124)	—
	(6,645)	95,474

* Payments in respect of royalty agreements with these entities were made to British American Tobacco (U.K. & Export) Ltd.

** Payments in respect of royalty agreements with these entities were made to British American Tobacco (Brands) Inc. (previously made to British American Tobacco International Holdings (Switzerland) Ltd., Zug.)

27. Significant Related Party Disclosures (Continued)

(a) Group's transactions (Continued)

The Group also provides various services for member corporations of the British American Tobacco p.l.c. Group which includes procurement, product testing and development services.

	Group	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(vii) Provision of technical and advisory support service to:		
– British American Tobacco China Ltd.	110	129
– British American Tobacco – Vinataba (JV) Ltd.	44	51
– British American Tobacco Company (HK) Ltd.	140	326
– British American Tobacco Cambodia Ltd.	63	61
– British American Tobacco Services Ltd., Taiwan Branch	93	105
– PT Bentoel Internasional Investama Tbk.	—	218
– Rothmans of Pall Mall Myanmar Pte. Ltd.	2	4
– British American Tobacco (Vietnam) Ltd.	13	21
– British American Tobacco (Singapore) Pte. Ltd.	1,395	1,476
– British American Tobacco Marketing (Singapore) Pte. Ltd.	911	856
– British American Tobacco Japan, Ltd.	7	80
– PT Export Leaf Indonesia	—	1
– British American Tobacco (Thailand) Ltd.	—	106
– Ceylon Tobacco Company Ltd.	—	2
– British American Tobacco (PNG) Ltd.	4	10
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	1,285	253
– British American Tobacco South Africa Pte. Ltd.	—	2
– British American Tobacco Bangladesh Company Ltd.	—	1
– British American Tobacco International Ltd.	11	291
	4,078	3,993

27. Significant Related Party Disclosures (Continued)

(a) Company's transactions

	Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(i) Management fee		
Management fee received from:		
– Commercial Marketers and Distributors Sdn. Bhd.	5,180	10,825
– Tobacco Importers and Manufacturers Sdn. Bhd.	634	—
	5,814	10,825
(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.	9,035	13,499
– Tobacco Importers and Manufacturers Sdn. Bhd.	1,316	1,287
	10,351	14,786
(iii) Procurement of services*		
Procurement of information technology services from:		
– British American Shared Services Ltd.	16,945	13,199
– British American Tobacco Asia-Pacific Region Ltd.	434	1,621
	17,379	14,820
(iv) Technical and advisory (includes share-based payment charges)*		
Payment of fees for technical and advisory support services to:		
– British American Tobacco (Investments) Ltd.	52,397	45,752
– British American Tobacco International Ltd.	1,643	1,846
– British American Tobacco Asia Pacific Treasury Pte. Ltd.	390	411
– British American Tobacco ASPAC Service Centre Sdn. Bhd.	8,156	6,417
– B.A.T. (U.K. & Export) Ltd.	—	193
– British American Tobacco Asia-Pacific Region Ltd.	5,461	8,140
	68,047	62,759
(v) Loan to a subsidiary		
Loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	—	80,000

27. Significant Related Party Disclosures (Continued)

(a) Company's transactions (Continued)

	Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
(vi) Interest income		
Interest income from loan to a subsidiary:		
– Commercial Marketers and Distributors Sdn. Bhd.	5,040	1,892
(vii) Transfer of assets		
Transfer of assets to subsidiary:		
– Tobacco Importers and Manufacturers Sdn. Bhd.	—	358

Key management personnel of the Group and Company are the Directors of which their compensation has been disclosed in Note 4 of the financial statements.

* These costs have been fully re-charged to certain subsidiaries during the year.

28. Segment Reporting

The entity is domiciled in Malaysia. The revenue from external customers in Malaysia is RM3,763,320,000 (2009: RM3,698,579,000), and the total revenue from external customers from other countries is RM202,128,000 (2009: RM224,842,000). The Group does not have any non-current assets that are located in countries other than Malaysia. There are also no revenue arising from transactions with a single external customer that comprises 10% or more of the Group's revenue for the years ended 31 December 2009 and 31 December 2010.

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

29. Financial Instruments

Financial Risk Management

The Group and Company are exposed to financial risks arising from its business activities; mainly interest rate risks, currency exchange risks, credit risks and liquidity and cash flow risks. These risks are managed by the Group at Group level.

Straightforward derivative financial instruments are utilised by the Group to lower funding costs, to alter interest rate exposures or to achieve greater certainty of future costs. These instruments are entered into in accordance with objectives and policies approved by the Board of Directors that expressly forbid speculative transactions.

The policy restricts the use of derivative instruments to forward foreign exchange contracts, foreign currency and interest rate swaps, forward rate agreements, currency options and caps. In addition to policies, guidelines and exposure limits, a system of delegated authority limits and extensive independent reporting covers all major areas of the Group's treasury activities.

(a) Interest Rate Risk Management

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group. As at the balance sheet date, there were no open interest rate swap contracts. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The Group has no cash flow interest rate risk as the Group has only fixed rate borrowings as disclosed in Note 22, and a possible 10% increase or decrease in interest rates on deposits will not result in any significant change in the Group's pre-tax profit.

(b) Currency Exchange Risk Management

The Group is subject to exposures to currency exchange risk as a result of its purchases of certain raw materials, equipment and services in foreign currencies. The Group's primary currency exchange risk exposures are to the US dollar, Euro and British pound. The currency profile of the assets and liabilities of the Group are disclosed in the respective notes to the financial statements.

The objectives of the Group's foreign exchange policies are to allow the Group to manage exposures that arise from trading activities effectively within a framework of controls that does not expose the Group to unnecessary foreign exchange risks. The Group enters into forward foreign exchange contracts to hedge 50% - 100% of its exposure on foreign currency sales and payables and on cash flows to be used in anticipated transactions denominated in foreign currencies for the subsequent 12 months.

The Group considers a 10% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 10% increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Group's pre-tax profit.

29. Financial Instruments (Continued)

Financial Risk Management (Continued)

(c) Price Risk Management

The Group is exposed to price risk relating to leaf purchases, which are included in raw materials disclosed in Note 17. The Group reviews sourcing strategies as and when required, to manage any adverse exposures. There are no other significant price risks that the Group is exposed to.

The Group considers a 10% change in prices of leaf purchases a possible change. The impact is calculated with reference to the leaf purchases made during the year held as at the year end, unless this is unrepresentative of the position during the year. A 10% increase or decrease in leaf purchases would not result in significant changes in pre-tax profit.

(d) Credit Risk Management

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, setting of counterparty limits and monitoring procedures. The Group seeks to invest cash assets safely and profitably. Credit risks are minimised given the Group's policy of selecting only counterparties with high creditworthiness.

Approximately 60% of the Group's trade receivables are derived from its sales to 8 of its key customers. The Group closely monitors collections from these customers. In addition, the Group's historical experience in collection of trade receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Group's trade receivables.

The Group has no other significant concentrations of credit risk, notwithstanding that the majority of its deposits are placed with financial institutions in Malaysia. The likelihood of non-performance by these financial institutions is remote based on their high credit ratings.

The age analysis of trade receivables is disclosed in Note 18.

(e) Liquidity and Cash Flow Risks

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions so as to achieve overall cost effectiveness.

The maturity profile of the borrowings is disclosed in Note 22.

29. Financial Instruments (Continued)

Financial Risk Management (Continued)

(f) Fair Values

Effective 1 January 2010, the Group adopted the amendments to FRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

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 in accordance with FRS 7 classification hierarchy.

The carrying amounts of and fair values of the Group's borrowings are as follows:

	Note	Group		Company	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
At 31 December 2010					
Non current borrowings					
RM400 million MTNs	22	400,000	403,971	400,000	403,971
RM250 million MTNs	22	250,000	256,548	250,000	256,548
At 31 December 2009					
Non current borrowings					
RM400 million MTNs	22	400,000	405,640	400,000	405,640
RM250 million MTNs	22	250,000	251,850	250,000	251,850

The Group measures the fair values of its borrowings based on observable yield curves.

29. Financial Instruments (Continued)

Financial Risk Management (Continued)

(g) Capital risk management

The Group defines capital as net debt (see Note 22) and equity (Note 23).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group assesses its financial capacity by reference to cash flow and interest cover. Group policies include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided.

30. Share-Based Payments

The expense recognised for employee services received during the year is as follows:

	Group		Company	
	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000	Year ended 31.12.10 RM'000	Year ended 31.12.09 RM'000
Expense arising from equity-settled share-based payment transactions	3,632	5,320	2,350	3,133

The expenses arose as a result of a number of the Group and Company employees' participation in the employee share schemes offered by British American Tobacco p.l.c. during their employment with the Group (British American Tobacco p.l.c. indirectly through British American Tobacco Holdings (Malaysia) B.V., owns fifty percent (50%) equity interest in the Company and is deemed to be the Company's ultimate holding company). The details of the employee share schemes are as follows:

	Method of Settlement and Timing of Grant	Contractual Life	Vesting Conditions
Deferred Share Bonus Scheme	Equity-settled grants. (Timing of grant: Annually in March)	3 Years	Free shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend during the holding period.
International Share Reward Scheme	Equity-settled grants. (Timing of grant: Annually in April)	3 Years	Free shares granted subject to three year holding period and may be subject to forfeit if employee leaves within this period.

30. Share-Based Payments (Continued)

	Method of Settlement and Timing of Grant	Contractual Life	Vesting Conditions
Share Option Scheme	Equity-settled grants. (The granting of options under this scheme ceased with the last grant made in March 2004)	10 Years	Options exercisable three years from date of grant and subject to earnings per share performance.
Long Term Incentive Plan	Equity-settled grants. (Timing of grant: Annually in March)	10 Years	Nil-cost options exercisable three years from date of grant, with payout subject to performance conditions based on earnings per share relative to inflation (50% of grant) and total shareholder return.

a) Equity share-based payment arrangements (other than share options)

Details of the movements of equity share-based payment arrangements (other than share options) during the year ended 31 December 2010, covering the Deferred Share Bonus Scheme and International Share Reward Scheme are as follows:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	Group		Company	
	2010	2009	2010	2009
Outstanding at start of year	78,241	70,158	37,622	34,213
Granted during the period	14,125	36,229	7,805	19,706
Exercised during the period	(25,231)	(28,146)	(10,681)	(16,297)
Outstanding at end of year	67,135	78,241	34,746	37,622

The shares outstanding for the year ended 31 December 2010 for the Group and Company had a weighted average contractual life of 1.1 years (2009: 1.3 years) and 1.1 years (2009: 1.5 years) respectively.

The weighted average fair value equity share-based payment arrangements granted during 2010 for the Group and Company were £20.05 (2009: £13.48) and £19.81 (2009: £13.49) respectively.

30. Share-Based Payments (Continued)

b) Share option schemes

Details of the movements for the equity-settled Share Option Scheme during the year ended 31 December 2010 are as follows:

	Group			
	2010		2009	
	Number of British American Tobacco p.l.c. options	Weighted average exercise price per share (£)	Number of British American Tobacco p.l.c. options	Weighted average exercise price per share (£)
Outstanding at start of year	30,805	7.58	33,178	7.62
Exercised during the period	(8,541)	8.09	(2,373)	8.09
Forfeited during the period	—	—	—	—
Outstanding at end of year	22,264	7.39	30,805	7.58
Exercisable at end of year	22,264	7.39	30,805	7.58

	Company			
	2010		2009	
	Number of British American Tobacco p.l.c. options	Weighted average exercise price per share (£)	Number of British American Tobacco p.l.c. options	Weighted average exercise price per share (£)
Outstanding at start of year	7,824	8.09	7,824	8.09
Exercised during the period	(5,286)	—	—	—
Outstanding at end of year	2,538	8.09	7,824	8.09
Exercisable at end of year	2,538	8.09	7,824	8.09

30. Share-Based Payments (Continued)

b) Share option schemes (Continued)

In addition to the above options, the movement in nil-cost equity-settled options from the Long Term Incentive Plan was as follows:

	Number of ordinary shares of 25p each in British American Tobacco p.l.c.			
	Group		Company	
	2010	2009	2010	2009
Outstanding at start of year	122,999	117,286	67,808	64,453
Granted during the period	31,798	44,722	21,216	28,459
Exercised during the period	(25,682)	(38,854)	(15,337)	(24,949)
Forfeited during the period	—	(155)	—	(155)
Outstanding at end of year	129,115	122,999	73,687	67,808
Exercisable at end of year	17,369	16,761	—	3,912

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period for the Group and Company was £22.62 (2009: £17.79) and £22.33 (2009: £16.73) respectively.

A detailed breakdown of the range of exercise prices for options outstanding at the end of 31 December 2010 is shown in the tables below:

	Group					
	2010			2009		
	Number of options at end of year	Weighted average remaining contractual life (year)	Weighted average exercise price per share (£)	Number of options at end of year	Weighted average remaining contractual life (year)	Weighted average exercise price per share (£)
Long Term Incentive Plan						
Nil cost	129,115	7.9	n/a	122,999	8.1	n/a
Share Option Scheme						
£5.00 to £6.99	7,392	2.2	5.98	7,392	3.2	5.98
£7.00 to £8.99	14,872	3.2	8.09	23,413	4.2	8.09
Total	151,379	7.2	1.09	153,804	7.2	1.52

30. Share-Based Payments (Continued)

b) Share option schemes (Continued)

	Company					
	2010			2009		
	Number of options at end of year	Weighted average remaining contractual life (year)	Weighted average exercise price per share (£)	Number of options at end of year	Weighted average remaining contractual life (year)	Weighted average exercise price per share (£)
Long Term Incentive Plan						
Nil cost	73,687	8.2	n/a	67,808	8.4	n/a
Share Option Scheme						
£7.00 to £8.99	2,538	3.2	8.09	7,824	4.2	8.09
Total	76,225	8.0	0.27	75,632	7.9	0.84

The weighted average fair value of equity-settled share option schemes granted during 2010 for the Group and the Company was £15.65 (2009: £12.80).

c) Assumptions used

Assumptions used in the Black-Scholes Models to determine the fair value of share-based payment arrangements were as follows:

	Group and Company					
	Long Term Incentive Plan		Deferred Share Bonus Scheme		International Share Reward Scheme	
	2010	2009	2010	2009	2010	2009
Share price at date of grant (£)	£22.58	£15.79	n/a	n/a	n/a	n/a
Grant price (£)	n/a	n/a	£22.58	£15.79	£22.79	£16.11
Exercise price (£)	nil cost	nil cost	n/a	n/a	n/a	n/a
Volatility (%)	25	24	25	24	25	24
Average expected term to exercise (years)	3.5	3.5	3.0	3.0	5.0	5.0
Risk free rate (%)	2.1	2.1	1.8	2.0	2.8	2.3
Expected dividend yield (%)	4.4	5.3	4.4	5.3	4.4	5.2

30. Share-Based Payments (Continued)

c) Assumptions used (Continued)

Assumptions used in the Monte-Carlo Models to determine the fair value of share-based payment arrangements are as follows:

	Group and Company	
	2010	2009
Average share price volatility FTSE100* comparator group (%)	38	35
Average share price volatility FMCG** comparator group (%)	25	24
Average correlation FTSE100 comparator group (%)	37	38
Average correlation FMCG comparator group (%)	33	32

* Financial Times Stock Exchange

** Fast Moving Consumer Goods

Market condition features were incorporated into Monte-Carlo models for the total shareholder return elements of the Long Term Incentive Plan in determining fair value at grant date.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the daily share price movements over a five year period. The respective FMCG and FTSE100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price. For grants containing earnings per share performance conditions, the payout calculation is based on the expectations based on published analysts' forecasts.

31. Breakdown of Realised and Unrealised Profit/(Loss)

The following analysis of realised and unrealised retained profits/(accumulated losses) at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

	Group	Company
	2010 RM'000	2010 RM'000
Total retained profits of British American Tobacco (Malaysia) Berhad and its subsidiaries		
– Realised profit	523,619	166,474
– Unrealised (loss)/profit	(46,955)	2,417
Less: Consolidation adjustments	(127,629)	—
Total retained profits	349,035	168,891

The unrealised portion within unappropriated profits (retained earnings) for the Group as at 31 December 2010 mainly relate to foreign currency translation losses of cash balances, receivables and payables of RM1,781,000, net deferred tax liability of RM26,647,000 and provision for litigation which is pending settlement of RM18,527,000.

The consolidation adjustments recognised for the Group mainly relate to accumulated goodwill amortisation recognised from years 2000 to 2005.

The unrealised portion within unappropriated profits (retained earnings) for the Company as at 31 December 2010 mainly relate to foreign currency translation losses of cash balances, receivables and payables of RM83,500, net deferred tax asset of RM4,166,000 and provision for litigation which is pending settlement of RM1,665,000.

ANALYSIS OF SHAREHOLDINGS

as at 1 March 2011

Share Capital

Authorised Share Capital : RM385,000,000 comprising 770,000,000 ordinary shares of RM0.50 each
 Issued and Fully Paid-Up Share Capital : RM142,765,000 comprising 285,530,000 ordinary shares of RM0.50 each
 Voting Rights : One vote per ordinary share

Distribution of Shareholdings

(without aggregating the securities from different securities account belonging to the same Depositor)

Size of Shareholdings	Number of Shareholders	% of Shareholders	Number of Shares Held	% of Issued Shares
1 – 99	541	12.160	9,183	0.003
100 – 1,000	2,200	49.449	1,018,930	0.356
1,001 – 10,000	1,241	27.893	4,828,794	1.691
10,001 – 100,000	341	7.664	10,499,976	3.677
100,001 – 14,276,499*	124	2.787	109,136,017	38.222
14,276,500 and above**	2	0.044	160,037,100	56.049
Total	4,449	100.000	285,530,000	100.000

Notes:

* Less than 5% of issued shares

** 5% and above of issued shares

Directors' Direct Interests in Shares in the Company

Name	Number of Shares Held	% of Issued Shares
Tan Sri Abu Talib bin Othman	41,000	0.02
Datuk Oh Chong Peng	1,000	0.00*
James Richard Suttie	1,500	0.00*
Dato' Chan Choon Ngai	1,000	0.00*

Directors' Indirect Interests in Shares in the Company

Name	Number of Shares Held	% of Issued Shares
Dato' Chan Choon Ngai	6,000	0.00*

Note:

* Less than 0.01%

Substantial Shareholders Based on the Register of Substantial Shareholders

Name	Number of Shares Held	% of Issued Shares
British American Tobacco Holdings (Malaysia) B.V.	142,765,000	50.000
AmanahRaya Trustees Berhad	17,272,100	6.049
– Skim Amanah Saham Bumiputera		

Top 30 Securities Account Holders

(without aggregating the securities from different securities accounts belonging to the same Depositor)

No.	Name	Number of Shares Held	% of Issued Shares
1	BRITISH AMERICAN TOBACCO HOLDINGS (MALAYSIA) B.V.	142,765,000	50.000
2	AMANAHRAYA TRUSTEES BERHAD – SKIM AMANAH SAHAM BUMIPUTERA	17,272,100	6.049
3	VALUECAP SDN BHD	11,219,400	3.929
4	CITIGROUP NOMINEES (TEMPATAN) SDN BHD – EMPLOYEES PROVIDENT FUND BOARD	10,069,702	3.526
5	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	9,008,800	3.155
6	CARTABAN NOMINEES (ASING) SDN BHD – SSBT FUND 4545 FOR LAZARD EMERGING MARKETS PORTFOLIO	6,763,800	2.368
7	HSBC NOMINEES (ASING) SDN BHD – TNTC FOR SAUDI ARABIAN MONETARY AGENCY	5,089,000	1.782
8	AMANAHRAYA TRUSTEES BERHAD – AMANAH SAHAM MALAYSIA	4,500,000	1.576
9	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD – GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	4,076,900	1.427
10	HSBC NOMINEES (ASING) SDN BHD – BNP PARIBAS SECS SVS LUX FOR ABERDEEN GLOBAL	3,747,320	1.312
11	CARTABAN NOMINEES (ASING) SDN BHD – EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	3,346,240	1.171
12	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (JPMFUNDS)	2,597,400	0.909
13	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.K.)	2,054,800	0.719
14	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	2,015,900	0.706

No.	Name	Number of Shares Held	% of Issued Shares
15	HSBC NOMINEES (ASING) SDN BHD – BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	1,953,172	0.684
16	HSBC NOMINEES (ASING) SDN BHD – BNP PARIBAS SECS SVS PARIS FOR ABERDEEN ASIA PACIFIC FUND	1,750,900	0.613
17	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR THE BANK OF NEW YORK MELLON (MELLON ACCT)	1,483,577	0.519
18	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.A.E.)	1,277,855	0.447
19	CITIGROUP NOMINEES (TEMPATAN) SDN BHD – EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD	1,251,600	0.438
20	HSBC NOMINEES (ASING) SDN BHD – TNTC FOR SANDERSON INTERNATIONAL VALUE FUND	1,246,000	0.436
21	HSBC NOMINEES (ASING) SDN BHD – BBH AND CO BOSTON FOR MERRILL LYNCH GLOBAL ALLOCATION FUND	1,163,300	0.407
22	CITIGROUP NOMINEES (ASING) SDN BHD – CBNY FOR AGF EMERGING MARKETS FUND	1,148,700	0.402
23	CARTABAN NOMINEES (ASING) SDN BHD – STATE STREET LONDON FUND OD75 FOR ISHARES PUBLIC LIMITED COMPANY	931,100	0.326
24	AMANAHRAYA TRUSTEES BERHAD – AS 1MALAYSIA	894,300	0.313
25	HSBC NOMINEES (ASING) SDN BHD – EXEMPT AN FOR BNP PARIBAS SECURITIES SERVICES (JERSEY GBP)	814,800	0.285
26	CARTABAN NOMINEES (ASING) SDN BHD – GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD FOR GOVERNMENT OF SINGAPORE (C)	808,400	0.283
27	CITIGROUP NOMINEES (ASING) SDN BHD – CBHK FOR KUWAIT INVESTMENT AUTHORITY (FUND 221)	780,000	0.273
28	CITIGROUP NOMINEES (TEMPATAN) SDN BHD – EXEMPT AN FOR PRUDENTIAL FUND MANAGEMENT BERHAD	764,900	0.267
29	CARTABAN NOMINEES (ASING) SDN BHD – STATE STREET LONDON FUND 2GFR FOR ST. JAMES'S PLACE FAR EAST	700,400	0.245
30	HSBC NOMINEES (ASING) SDN BHD – BNP PARIBAS SECS SVS PARIS FOR EDINBURGH DRAGON TRUST PLC	666,700	0.233
TOTAL		242,162,066	84.811

PARTICULARS OF PROPERTIES

Properties held by the Group as at 1 March 2011

Location	Date of Purchase/ Last Revaluation	Usage	Approximate Age of Building (Years)	Land/ Built-Up Area (square metres)	Net Book Value (RM'000)
Freehold					
No. 36 & 36A, Jalan Lengkok Canning Ipoh Garden, Ipoh, Perak	30.11.89	shop and office	22	143.07	87
No. A79, Jalan Telok Sisek, Kuantan, Pahang	28.4.94	shop and office	19	110.59	218
Leasehold					
Lots 122 and 124, Jalan Universiti Petaling Jaya, Selangor (99 years lease expiring on 8.4.2062 and 29.9.2060 respectively)	30.9.61	factory, office and store	49	46,905.44	69,072
Lots P.T. 683-685, 687-689 Mukim Panchor, Daerah Kemumin Kawasan Perindustrian Pengkalan Chepa II, Kota Bharu, Kelantan (66 years lease expiring 25.7.2048)	26.7.82	industrial land, store and office	23	29,952.00	4,956
No. 2, Jalan Foochow, Kuching, Sarawak (999 years lease expiring 31.12.2923)	3.10.91	shop and office	21	156.1	187
No. 120, Jalan Semangat, Petaling Jaya Selangor (99 years lease expiring 12.7.2061)	24.5.93	office and store	35	6,119.00	5,008
Lot 1, Block A Hong Tong Centre Miles 4, Penampang, Kota Kinabalu, Sabah (99 years lease expiring 31.12.2080)	30.9.99	shop and office	17	136.56	420
No. 8, Jalan Melaka Raya 13 Taman Melaka Raya, Melaka (99 years lease expiring 7.7.2093)	30.3.96	shop and office	16	143	287
GM9, Lot 1709, Semerak, Pasir Puteh Kelantan (33 years lease expiring 23.9.2017)	24.9.84	residence (investment property)	24	10,380.00	142
Lots 2430 & 2431, HS(M) 6/83 Mukim Wakaf Delima, Wakaf Bharu, Kelantan (45 years lease expiring 3.1.2029)	4.1.84	office and store (investment property)	44	10,467.00	1,461
K.M 5.5, Jalan Bukit Kayu Hitam Changloon, Kedah (30 years lease expiring 6.7.2021)	7.7.91	office and agricultural land (asset held for sale)	22	285,510.00	875

CORPORATE DIRECTORY

Head Office

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD

(Company No. 4372-M)

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax : +60 (3) 7955 8416

TOBACCO IMPORTERS AND MANUFACTURERS SDN. BERHAD

(Company No. 4414-U)

Factory

Virginia Park
Jalan Universiti
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : +60 (3) 7956 6899/7491 7100
Fax : +60 (3) 7955 8416

COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.

(Company No. 42316-T)

Branch Offices

Pulau Pinang

No. 50 Weld Quay
10300 Penang
Tel : +60 (4) 261 8840
Fax : +60 (4) 261 8799

Ipoh

36, Jalan Lengkok Canning
Ipoh Garden
31400 Ipoh, Perak
Tel : +60 (5) 547 7878/546 2187
Fax : +60 (5) 547 4268

Selangor

No. 3, Jalan Industri PBP3
Taman Perindustrian Pusat Bandar
Puchong
47100 Puchong
Selangor
Tel : +60 (3) 5891 9888
Fax : +60 (3) 5891 9882

Melaka

8, Jalan Melaka Raya 13
Taman Melaka Raya
75000 Melaka
Tel : +60 (6) 282 5435/284 6593
Fax : +60 (6) 283 5168

Johor Bahru

No. 4 Jalan Asas
Larkin Industrial Estate
80350 Johor Bahru, Johor
Tel : +60 (7) 232 4688
Fax : +60 (7) 238 6208

Kuantan

A79, Jalan Telok Sisek
25000 Kuantan, Pahang
Tel : +60 (9) 517 8373/517 7831
Fax : +60 (9) 517 7484

Kota Bharu

Lot PT 1453 & 1454, 1st Floor
Kawasan Perindustrian Pengkalan
Chepa 2
Seksyen 39 Kemumin
16100 Kota Bharu, Kelantan
Tel. : +60 (9) 773 8831/773 8873
Fax. : +60 (9) 773 8968

Kota Kinabalu

Lot 1, Block A Hong Tong Centre
Mile 4, Penampang
P.O. Box 11236
88813 Kota Kinabalu, Sabah
Tel : +60 (88) 722 628/722 629
Fax : +60 (88) 722 630

Kuching

Lot 8943, Section 64, KTLD
No. 2, Jalan Foochow
93300 Kuching, Sarawak
Tel : +60 (82) 481 884/481 886
Fax : +60 (82) 335 490

Leaf Office

THE LEAF TOBACCO DEVELOPMENT CORPORATION OF MALAYA SDN. BHD.

(Company No. 4998-P)

Kota Bharu

Lot No. 2952
Kawasan Perindustrian
Pengkalan Chepa II
Jalan Padang Tembak
16100 Kota Bharu, Kelantan
Tel : +60 (9) 774 7400/774 7434
Fax : +60 (9) 773 5855

COMMERCIAL MARKETERS AND DISTRIBUTORS SDN. BHD.

(Incorporated in Negara Brunei Darussalam)
Unit 4, Block B
Lot 1150, EDR 2244
Latifuddin Complex
Jalan Tungku Link
Menglait, Gadong, BE 3619
Negara Brunei Darussalam
Tel : +(673) 245 2975
Fax : +(673) 245 2974

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 50th Annual General Meeting of British American Tobacco (Malaysia) Berhad (BATM or the Company) will be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 19 April 2011 at 11.00 a.m. for the following purposes:

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 and the Reports of the Directors and Auditors thereon. **(Ordinary Resolution 1)**
2. To re-elect the following Directors who retire by rotation in accordance with Articles 97(1) and (2) of the Company's Articles of Association:
 - (i) Mr. Toh Ah Wah **(Ordinary Resolution 2)**
 - (ii) Mr. James Richard Suttie **(Ordinary Resolution 3)**
3. To re-elect Dato' Chan Choon Ngai who retires in accordance with Article 103 of the Company's Articles of Association. **(Ordinary Resolution 4)**
4. To consider and if thought fit, to pass the following Ordinary Resolution in accordance with Section 129(6) of the Companies Act, 1965:-
 "THAT Tan Sri Abu Talib bin Othman, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company." **(Ordinary Resolution 5)**
5. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2011 and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 6)**

As Special Business

6. To consider and if thought fit, to pass the following Ordinary Resolution:

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR BATM AND ITS SUBSIDIARIES TO ENTER INTO RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RELATED PARTIES (PROPOSED RENEWAL OF THE RECURRENT RPTS MANDATE) **(Ordinary Resolution 7)**

"THAT, the Recurrent RPT Mandate (as defined in the Circular to Shareholders dated 25 March 2011) granted by the shareholders of the Company pursuant to Paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad authorising the Company and/or its subsidiaries (British American Tobacco Malaysia Group) to enter into recurrent related party transactions of a revenue or trading nature (Recurrent RPTs) of British American Tobacco Malaysia Group with Related Parties (as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad) as set out in Paragraph 2.2 and Appendix II of the Circular to Shareholders dated 25 March 2011 which are necessary for the British American Tobacco Malaysia Group's day to day operations, be and is hereby renewed provided that:

 - (i) the transaction are in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
 - (ii) disclosure of the aggregate value of the transactions conducted during a financial year will be made in the annual report for the said financial year,

AND THAT the authority conferred by such renewed mandate shall continue to be in force until:

- (i) the conclusion of the next Annual General Meeting (AGM) of the Company following the AGM at which the Proposed Renewal of the Recurrent RPTs Mandate is approved, at which time it will lapse, unless by a resolution passed at the next AGM the mandate is again renewed;
- (ii) the expiration of the period within which the next AGM of the Company after the forthcoming AGM is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but must not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary in the best interest of the Company (including executing all such documents as may be required) to give effect to the Proposed Renewal of the Recurrent RPTs Mandate."

- 7. To consider any other business of which due notice shall have been given.

By Order of the Board



CHAN MEI MAE

LS0009460

Secretary

Petaling Jaya

25 March 2011

Notes:

1. A proxy need not be a Member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.
3. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.
5. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.
6. The original Proxy Form must be duly executed and deposited at the Share Registrar of the Company at Tricor Investor Services Sdn Bhd Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time set for holding the meeting or any adjourned meeting thereof.
7. **Registration of Members/Proxies**
Registration of Members/Proxies attending the meeting will commence at 9.00 a.m. on the day of the meeting and will close at 11.00 a.m. sharp. Members/Proxies are required to produce identification documents for registration.
8. **Explanatory Note on Special Business**
Recurrent Related Party Transactions Mandate
The Ordinary Resolution 7, if passed, will enable British American Tobacco (Malaysia) Berhad and its subsidiaries (British American Tobacco Malaysia Group) to enter into any of the recurrent related party transactions of a revenue or trading nature which are necessary for the British American Tobacco Malaysia Group's day to day operations, subject to the transactions being in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Further information on the Proposed Renewal Of Shareholders' Mandate For BATM and its subsidiaries to enter into Recurrent Related Party Transactions of A Revenue or Trading Nature with Related Parties is set out in the Circular to Shareholders dated 25 March 2011, which is despatched together with the Company's Abridged Annual Report 2010.

ADMINISTRATIVE DETAILS FOR BRITISH AMERICAN TOBACCO MALAYSIA 50TH ANNUAL GENERAL MEETING

Date : 19 April 2011

Time : 11.00 a.m.

Place : Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Registration

1. Registration will start at 9.00 a.m. at the entrance of Kristal Ballroom and will close at 11.00 a.m. sharp.
2. Please read the signage to ascertain which registration table you should approach to register yourself for the meeting and join the queue accordingly.
3. Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
4. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
5. You will be given a security sticker and no person will be allowed to enter the meeting room without the security sticker. There will be no replacement in the event that you lose or misplace the security sticker.
6. After registration, please leave the registration area immediately and proceed to Kristal Ballroom.
7. You are not allowed to register on behalf of another person even with the original IC of the other person.
8. The registration counter only handles verification and registration.

Help Desk

9. Please proceed to the Help Desk for any clarification or queries.

Entitlement to Attend and Vote

10. Only shareholders registered in the Register of Members and Record of Depositors as at **5.00 p.m. on 11 April 2011** shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time.

Proxy

11. If you are a member of the Company at the time set out above, you are entitled to appoint not more than two (2) proxies to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting.
12. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

13. To appoint a proxy, the original Proxy Form which is attached together with the Company's Abridged Annual Report 2010 must be completed and signed, sent and delivered to the Company's Share Registrar, Tricor Investor Services Sdn. Bhd., Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by **17 April 2011 at 11.00 a.m.**
14. In the case of a member which is a company, the Proxy Form must be executed either under its seal or under the hand of any officer or attorney duly authorised.

Revocation of Proxy

15. If you wish to appoint a proxy, please note that a proxy may be revoked by:-
 - i. attendance of the appointer at the Annual General Meeting and exercising his/her voting rights at the Annual General Meeting personally will automatically revokes the proxy;
 - ii. notice of revocation of the Proxy Form or the authority served by 17 April 2011 at 11.00 a.m.;
 - iii. appointing new proxy by depositing a new Proxy Form in favour of another person by 17 April 2011 at 11.00 a.m.; and
 - iv. transfer of shares by the appointer.

Corporate Member

16. Any corporate member who wishes to appoint a representative instead of a proxy to attend this Annual General Meeting should lodge the certificate of appointment under the seal of the corporation, at the office of the Company's Share Registrar, Tricor Investor Services Sdn. Bhd., Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur by 17 April 2011 at 11.00 a.m.

Annual Report 2010

17. The Annual Report 2010 is available on Bursa Malaysia's website at www.bursamalaysia.com under Company Announcements and also at the British American Tobacco Malaysia's website at www.batmalaysia.com.

Enquiry

18. If you have general queries prior to the meeting, please contact the British American Tobacco Malaysia Legal and Secretarial Department at 603-7956 6899 or the following person during office hours:
 Name : Ms. Lim Lay Kiow
 Share Registrar : Tricor Investor Services Sdn. Bhd.
 Telephone number: 603-2264 3883





**BRITISH AMERICAN
TOBACCO**
MALAYSIA

NOTES

This image shows a full page of a document template designed for handwriting practice. It consists of approximately 20 evenly spaced, horizontal blue dashed lines extending across the entire width of the page. The background is plain white, providing a clear contrast for the lines. There are no margins, text, or other markings present.

PROXY FORM

BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
(Company No. 4372-M)
(Incorporated in Malaysia)



“A” I/We _____ (NRIC/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____
(Name as per NRIC/Passport in Capital Letters) (NRIC/Co. No.: _____)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Co. No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our first proxy to attend and vote for me/us and on my/our behalf at the 50th Annual General Meeting of the Company, to be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 19 April 2011 at 11.00 a.m., and at any adjournment thereof.

“B” If you wish to appoint a second proxy, this section must also be completed, otherwise it should be deleted.

I/We _____ (NRIC/Co. No.: _____)
(Name as per NRIC/Passport/Certificate of Incorporation in Capital Letters)

of _____
(Full Address)

being a member/members of **BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD**, do hereby appoint _____
(Name as per NRIC/Passport in Capital Letters) (NRIC/Co. No.: _____)

of _____
(Full Address)

and/or failing him/her _____ (NRIC/Co. No.: _____)
(Name as per NRIC/Passport in Capital Letters)

of _____
(Full Address)

or failing him/her, the Chairman of the Meeting as my/our second proxy to attend and vote for me/us and on my/our behalf at the 50th Annual General Meeting of the Company, to be held at Kristal Ballroom, Hilton Petaling Jaya, No. 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 19 April 2011 at 11.00 a.m., and at any adjournment thereof.

The proportions of my/our holding to be represented by my/our proxies are as follows:

First Proxy “A”
Second Proxy “B”
100%

My/our proxy/proxies are to vote either on a show of hands or on a poll as indicated below with an “X”:

		First Proxy A		Second Proxy B	
Resolutions		For	Against	For	Against
Ordinary Resolution 1	Receive the Audited Financial Statements for the financial year ended 31 December 2010 and the Reports of the Directors and Auditors thereon.				
Ordinary Resolution 2	Re-elect Mr. Toh Ah Wah who retires by rotation in accordance with Articles 97(1) and (2) of the Company’s Articles of Association.				
Ordinary Resolution 3	Re-elect Mr. James Richard Suttie who retires by rotation in accordance with Articles 97(1) and (2) of the Company’s Articles of Association.				
Ordinary Resolution 4	Re-elect Dato’ Chan Choon Ngai who retires in accordance with Article 103 of the Company’s Articles of Association.				
Ordinary Resolution 5	Re-appointment of Tan Sri Abu Talib bin Othman in accordance with Section 129(6) of the Companies Act, 1965.				
Ordinary Resolution 6	Re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company for the financial year ending 31 December 2011 and to authorise the Directors to fix their remuneration.				
Ordinary Resolution 7	Proposed Renewal of Shareholders’ Mandate for British American Tobacco (Malaysia) Berhad and its Subsidiaries to enter into Recurrent Related Party Transactions of a revenue or trading nature with Related Parties.				

No. of Shares held	CDS Account No.

Dated this _____ day of _____ 2011.

Signature(s) of Member(s)/Common Seal

Notes:

1. A proxy need not be a Member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

2. A Member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his/her behalf. Where a Member appoints two (2) proxies, the appointment shall be invalid unless the percentage of the shareholding to be represented by each proxy is specified.

3. Where a Member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one (1) but not more than two (2) proxies in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of any officer or attorney duly authorised.

5. If there is no indication as to how a Member wishes his/her vote to be cast, the proxy/proxies will vote or abstain from voting at his/her discretion. In the event a Member duly executes the Proxy Form but does not name any proxy, such Member shall be deemed to have appointed the Chairman of the meeting as his/her proxy.

6. The original Proxy Form must be duly executed and deposited at the Share Registrar of the Company at Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjourned meeting thereof.

Please fold here to seal

affix
postage
stamp

The Share Registrar
Tricor Investor Services Sdn Bhd
(Company No. 118401-V)
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia

Please fold here to seal