

B.A.T. China Limited

Registered Number 00134409

Directors' report and financial statements

For the year ended 31 December 2013

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Strategic report

The Directors present their strategic report on the Company for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is the marketing of tobacco products for sales to Duty Free outlets across Greater China and domestic sales through the Company's branch in China.

Review of the year ended 31 December 2013

The profit for the financial year attributable to B.A.T. China Limited shareholders after deduction of all charges and the provision of taxation amounted to £19,002,000 (2012: £13,866,000). During the year, exceptional charges of £215,000 (2012: £83,000) related to organisational restructuring in Hong Kong and China.

The Company also entered into a joint venture agreement with China National Tobacco Corporation (CNTC) to create CTBAT International Limited (CTBAT). It owns and manages the worldwide international cigarette trademark State Express 555 and also the worldwide rights outside China to the leading CNTC brand Shuang Xi. CTBAT is treated as a joint venture as defined under FRS 9 'Associates and joint ventures'. The Company has, therefore, recognised it as an investment.

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

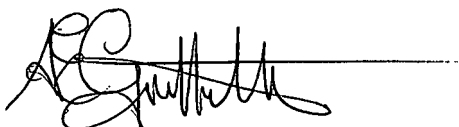
Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk management, are integrated with the principal risks of the Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by the Group. Accordingly, the key Group risk factors that may be relevant to the Company are disclosed in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

By Order of the Board



Ms A.E. Griffiths
Secretary

29 July 2014

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2013.

Dividends

The Directors do not recommend the payment of a dividend for the year (2012: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2013 to the date of this report are as follows:

	Appointed	Resigned
Lolita Tan Edralin		30 November 2013
Brendan James Brady		
Robert James Casey		
Nicola Snook		
Charl Erasmus Steyn		
Jerome Bruce Abelman		11 June 2014
Hardeep Khangura	22 November 2013	
Belinda Joy Ross	11 June 2014	

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

In respect of all of its suppliers, it is the Company's policy to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment; and
- avoid any delays when legitimately questioning invoices.

The proportion which the amount owed to trade creditors at 31 December 2013 bears to the amounts invoiced by suppliers during the year then ended equated to a 6 days proportion of 365 days (2012: 13 days).

* Details of the Better Payment Practice Code are available on the website <http://www.payontime.co.uk>.

Directors' report

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he or she has taken all steps that a director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board



Ms A.E. Griffiths
Secretary

29 July 2014

Independent auditors' report to the members of B.A.T. China Limited

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by B.A.T. China Limited, comprise:

- the Profit and loss account;
- the Statement of total recognised gains and losses;
- the Balance sheet; and
- the related notes.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditors' report to the members of B.A.T. China Limited

Opinion on matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Sotiris Kroustis (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

30 July 2014

Profit and loss account for the year ended 31 December 2013

		2013 £'000	2012 £'000
Continuing operations	Note		
Turnover	2	107,720	98,107
Other operating charges	3	(85,670)	(84,055)
Operating profit		22,050	14,052
Interest receivable and similar income	4	44	12
Interest payable and similar charges	5	(2,909)	-
Profit on ordinary activities before taxation		19,185	14,064
Tax on profit on ordinary activities	6	(183)	(198)
Profit for the financial year	14	19,002	13,866

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Profit for the financial year		19,002	13,866
Differences on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates	15	(1,037)	(325)
Differences on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	15	15	2,530
Total recognised gains relating to the financial year		17,980	16,071

The accompanying notes are an integral part of the financial statements.

Balance sheet at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	7	-	43,156
Tangible assets	8	208	259
Investments	9	102,128	-
		102,336	43,415
Current assets			
Stock	10	3,690	3,370
Debtors: amounts falling due within one year	11a	110,300	172,607
Debtors: amounts falling due after one year	11b	654	667
Cash at bank and in hand		750	1,076
Creditors: amounts falling due within one year	12	(197,758)	(219,143)
Net current assets/(liabilities)		(82,364)	(41,423)
Total assets less current liabilities		19,972	1,992
Capital and reserves			
Called up share capital	13	97,389	97,389
Profit and loss account	14	(77,417)	(95,397)
Total shareholders' funds	15	19,972	1,992

The financial statements on pages 7 to 20 were approved by the Directors on 29 July 2014 and signed on behalf of the Board.



C.E. Steyn
Director

Registered number 00134409

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December 2013

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The principal accounting policies have been applied consistently throughout the year and a summary is set out below.

Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c.. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996) 'Cash flow statements'.

Foreign currencies

Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange. Monetary assets and liabilities are translated at closing rates of exchange. The difference between the retained profit of the overseas branch translated at the average and closing rates of exchange is taken to reserves, as are differences on exchange arising on the retranslation to sterling of foreign currency net assets at the beginning of the year. Exchange differences arising on the retranslation of monetary assets and liabilities between the Company and its branch, which are translated at the exchange rate ruling at the end of the year, are also taken to reserves. Other exchange differences, including those on remittances, are reflected in the profit and loss account.

Accounting for turnover

Turnover comprises sales at invoiced value (excluding duty, excise and other taxes) and is after deducting rebates, returns and similar discounts, and is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts when there is an expectation that all or a portion of the amount due will not be recovered.

Taxation

Taxation provided is that chargeable on the profits of the year, together with deferred taxation.

The current income taxation charge is calculated on the basis of taxation laws enacted or substantially enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Notes to the financial statements for the year ended 31 December 2013

Accounting policies (continued)

Taxation (continued)

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale.

Membership debentures

Membership debentures have an indefinite useful life and are stated at cost less provision for impairment.

Intangible assets

Trademarks are stated at cost, less any amounts provided for impairment in value. No annual amortisation is charged in respect of these assets except where the end of the useful economic lives of the assets can be foreseen. The useful economic lives and the carrying value are reviewed annually and any amortisation or provision for impairment in value charged in the profit and loss account.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are:

	%
Fixtures and fittings	Over the period of the lease of the property
Equipment	20
Motor Vehicles	25

Investments

Investments consist of participating interests in the CTBAT International Limited joint-venture. A joint venture is an entity which is jointly controlled by two or more parties under a contractual agreement and where decisions regarding the financial and operating policy essential to the activities of the entity require unanimous consent. Investments in joint ventures are carried at cost less any amounts written off where appropriate.

Notes to the financial statements for the year ended 31 December 2013

Accounting policies (continued)

Operating leases

The annual payments under operating leases are charged to the profit and loss account on a straight line basis over the length of the lease term.

Retirement benefits

The Company participates in several pension schemes the largest of which, operated by British American Tobacco (Hong Kong) Limited, is a multi-employer pension scheme. Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme.

The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco (Hong Kong) Limited funded defined benefit scheme and, therefore, does not recognise any share of any surplus or deficit in respect of these.

The Company also operates a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due.

Future changes to accounting policies

On 22 November 2012, the Financial Reporting Council issued FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. These were followed on 14 March 2013 by the publication of FRS 102 The Financial Reporting Standard applicable in the UK and Ireland. These standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups, for accounting periods beginning on or after 1 January 2015. Early adoption is permissible.

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group accounts, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying EU-adopted IFRS, FRS 101 or the FRSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Directors are evaluating the impact of these requirements for the Company, and are likely to adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015, but do not currently anticipate any material impact from doing so.

2 Turnover

Turnover comprises the sale of tobacco products to Duty Free Outlets across Greater China and domestic sales in China.

Notes to the financial statements for the year ended 31 December 2013

3 Other operating charges

	2013 £'000	2012 £'000
Other operating charges comprise:		
Change in stocks of finished goods and goods for resale	(960)	1,987
Purchases of goods for resale	58,000	50,954
Staff costs	5,211	5,959
Exchange losses/(gains)	83	(72)
Depreciation of tangible assets	132	111
Loss on disposal of tangible assets	11	2
Exceptional charge	215	83
Operating lease charges:		
- land and buildings	855	864
- other	343	148
Auditors' remuneration:		
- For the audit of the financial statements	51	51
- Taxation compliance services	5	34
- Other taxation advisory services	98	32
Other	21,626	23,902
	85,670	84,055

	2013 £'000	2012 £'000
Staff costs:		
Wages and salaries	4,476	5,394
Social security costs	610	471
Defined contribution scheme costs (note 16)	125	94
	5,211	5,959

The average monthly number of persons employed by the Company during the year was:

	2013 Number	2012 Number
Marketing	54	58
	54	58

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2012: £nil).

Notes to the financial statements for the year ended 31 December 2013

Other operating charges (continued)

At 31 December, the company had annual commitments in respect of non-cancellable operating leases expiring as follows:

	Land and buildings		Others	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Within one year	272	197	-	-
1 – 5 years	136	253	-	-
Beyond five years	-	-	-	-
	408	450	-	-

The commitments for land and buildings are in respect of lease agreements for offices and expatriate's accommodation, which are subject to rent reviews.

4 Interest receivable and similar income

	2013 £'000	2012 £'000
Bank interest	1	1
Exchange gains on foreign currency borrowings	43	11
	44	12

5 Interest payable and similar charges

	2013 £'000	2012 £'000
Interest payable and similar charges	(2,909)	-

Notes to the financial statements for the year ended 31 December 2013

6 Tax on profit on ordinary activities

(a) Summary of taxation on profit on ordinary activities

	2013 £'000	2012 £'000
Current taxation:		
UK corporation taxation on profit of the year		
Comprising:		
- current taxation at 23.25% (2012: 24.5%)	4,547	198
- double taxation relief	-	(198)
- overseas branch profit exemption	(4,547)	-
	-	-
Overseas taxation	183	198
Total current taxation note 6(b)	183	198

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 24.0% to 23.0% with effect from 1 April 2013. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 23.25%.

The current taxation charge differs from the standard 23.25% (2012: 24.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	19,185	14,064
Corporation taxation at 23.25% (2012: 24.5%) on profit on ordinary activities	4,461	3,446
Factors affecting the taxation rate:		
Permanent differences	53	98
Other timing differences	30	46
Group loss relief surrendered/(claimed) at nil consideration	3	(3,392)
Double taxation relief	-	(198)
Overseas taxation	183	198
Overseas branch profit exemption	(4,547)	-
Total current taxation charge note 6(a)	183	198

An amount of £11,000 (2012: £33,000) (taxation amount of £3,000 (2012: £8,000)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

Notes to the financial statements for the year ended 31 December 2013

7 Intangible assets

	Trademarks £'000
Cost	
1 January 2013	43,156
Differences on exchange	2,172
Contribution to joint venture (note 9)	(45,328)
31 December 2013	-
Accumulated amortisation	
1 January 2013	-
31 December 2013	-
Net book value	
1 January 2013	43,156
31 December 2013	-

During 2013 the Company entered into a joint venture agreement with China National Tobacco Corporation to create CTBAT International Limited (CTBAT). The trademark acquired in 2012 formed part of the contribution to the joint venture from the Company.

8 Tangible assets

	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
1 January 2013	808	265	1,073
Differences on exchange	(14)	(5)	(19)
Additions	94	-	94
Disposals	(115)	-	(115)
31 December 2013	773	260	1,033
Accumulated depreciation			
1 January 2013	671	143	814
Differences on exchange	(11)	(6)	(17)
Charge for the year	87	45	132
Disposals	(104)	-	(104)
31 December 2013	643	182	825
Net book value			
1 January 2013	137	122	259
31 December 2013	130	78	208

Notes to the financial statements for the year ended 31 December 2013

9 Investments

(1) Shares in Joint venture

Unlisted – registered in Hong Kong

CTBAT International Limited 50%
99,000,000 ordinary shares of US\$1.00 each

(2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions £'000
Cost	
1 January 2013	-
Intangibles contribution in joint venture (note 7)	45,328
Addition	64,011
Differences on exchange	(7,211)
31 December 2013	102,128
Impairment provisions	
1 January 2013	-
31 December 2013	-
Net book value	
1 January 2013	-
31 December 2013	102,128

During the year the Company entered into a joint venture agreement with China National Tobacco Corporation (CNTC) to create CTBAT International Limited (CTBAT). It owns and manages the worldwide international cigarette trademark State Express 555 and also the worldwide rights outside China to the leading CNTC branding Shuang Xi. CTBAT is treated as a joint venture as defined under FRS 9 'Associates and joint ventures'. The Company has, therefore, recognised it as an investment.

The Directors are of the opinion that the individual investment in the Group undertaking has a value not less than the amount at which it is shown in the balance sheet.

10 Stock

	2013 £'000	2012 £'000
Finished goods and goods for resale	3,690	3,370

Notes to the financial statements for the year ended 31 December 2013

11 Debtors:

(a) amounts falling due within one year

	2013 £'000	2012 £'000
Trade debtors	9,546	7,314
Amounts owed by Group undertakings	98,886	162,643
Other debtors	1,839	2,524
Prepayments and accrued income	29	126
	110,300	172,607

Included within amounts owed by Group undertakings is an amount of £4,964,000 (2012: £67,431,000) which is unsecured, interest free and repayable within one year. Other amounts owed by Group undertakings are unsecured, interest free and have no fixed repayment terms.

(b) amounts falling due after one year

	2013 £'000	2012 £'000
Membership debentures	654	667
	654	667

12 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Amounts owed to Group undertakings	190,640	208,050
Taxation and social security	98	163
Accruals and deferred income	7,020	10,930
	197,758	219,143

Included within amounts owed to Group undertakings is an amount of £94,000,000 (2012: £nil) which is unsecured, interest bearing and repayable on demand. The interest rate is based on HKD LIBOR. Another amount of £93,000,000 (2012: £203,935,000) is unsecured, interest free and repayable within one year. All other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements for the year ended 31 December 2013

13 Called up share capital

Ordinary shares of £1 each	2013	2012
Allotted, called up and fully paid		
- value	£97,388,714	£97,388,714
- number	97,388,714	97,388,714

14 Reserves

	Profit and loss account £'000
1 January 2013	(95,397)
Profit for the financial year	19,002
Unrealised exchange differences on translation of branch activities	(1,022)
31 December 2013	(77,417)

15 Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Profit for the financial year	19,002	13,866
Net proceeds of issue of ordinary share capital	-	97,265
Unrealised exchange differences on translation of branch activities	(1,022)	2,205
Net movement in shareholders' funds/(deficit)	17,980	113,336
Opening shareholders' funds/(deficit)	1,992	(111,344)
Closing shareholders' funds	19,972	1,992

Notes to the financial statements for the year ended 31 December 2013

16 Pensions

The majority of employees are members of a multi-employer pension scheme operated in Hong Kong by British American Tobacco Company (Hong Kong) Limited and information on that scheme is disclosed in the financial statements of British American Tobacco Company (Hong Kong) Limited.

Under FRS17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as if it were a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company is unable to identify its share of the underlying assets and liabilities of the schemes. Therefore, the Company does not recognise any share of any surplus or deficit in respect of its pension schemes.

The main pension scheme operated in Hong Kong is a defined benefit externally funded scheme which provides a lump sum on retirement or leaving service. Contributions to the scheme are made in accordance with the advice of Watson Wyatt Hong Kong Limited, an independent qualified actuary. The most recent actuarial valuation was made as at 31 December 2013 and showed a surplus of £1,525,000 (2012: £590,000) under the projected unit method. The main assumptions used were that salaries will increase by 4.5% (2012: 4.5%) per annum, a general inflation rate of 3.0% (2012: 3.0%) per annum and a discount rate of 1.8% (2012: 0.5%).

The total net pension cost for the Company for 2013 was £nil (2012: £nil) as the Hong Kong pension scheme is currently benefiting from a contribution holiday.

The Company also operates a defined contribution scheme, the costs for which amounted to £125,000 (2012: £94,000).

At 31 December 2013 there were amounts of £nil (2012: £nil) prepaid and £300 (2012: £11,000) outstanding in respect of defined contribution schemes.

17 Related party disclosures

Transactions with related parties have been aggregated by nature of transaction and were as follows:

	2013	2012
	£'000	£'000
Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group		
Royalty expenses	1,359	-

The related party referred to is CTBAT (see note 9).

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

Notes to the financial statements for the year ended 31 December 2013

18 Contingent Liabilities

In 2012 the company approved an irrevocable letter of undertaking from the Company and certain other Group entities providing an indemnity (up to a maximum aggregate amount of US\$30,000,000 in liquidated damages) in respect of the transfer of certain trademarks.

19 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British American Tobacco China Holdings Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

The Company Secretary
Globe House
4 Temple Place
London
WC2R 2PG