

**B.A.T Services Limited**

**Registered Number 00221104**

**Annual report and financial statements**

**For the year ended 31 December 2019**



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## Strategic Report

The Directors present their strategic report on B.A.T Services Limited (the "Company") for the year ended 31 December 2019.

### Principal activities

The principal activity of the Company is to operate a branch in Taiwan to promote and distribute tobacco products in that country on behalf of the British American Tobacco group of companies (the "Group").

### Review of the year ended 31 December 2019

The profit for the financial year attributable to B.A.T Services Limited shareholders after deduction of all charges and the provision of taxation amounted to £6,221,000 (2018: £13,145,000).

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 British American Tobacco p.l.c.'s 2019 Annual Report and Form 20-F ("BAT Annual Report") 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 BAT Annual Report and do not form part of this report.

### UK Companies Act: Section 172(1) Statement

The Company is part of the British American Tobacco Group and is ultimately owned by British American Tobacco p.l.c. As set out above in the Company's Strategic Report, the Company's principal activity is to operate a branch in Taiwan to promote and distribute tobacco products in that country.

Under section 172(1) of the UK Companies Act and as part of the Directors' duty to the Company's shareholders, to act as they consider most likely to promote the success of the Company, the Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for the interests of the Company's employees, business relationships with the Company's wider stakeholders, and the impact of the Company's operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into all Board decision-making and risk assessment throughout the year.

The Company's key stakeholders are direct and indirect suppliers to the Company (including leaf suppliers, product materials suppliers and goods and services suppliers), customers of the Company (including distributors, wholesalers and retailers), employees (the Company has around 109 employees based in Taiwan, government authorities in both the UK and Taiwan, wider society in countries in which the Company operates and the Company's shareholders. Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key stakeholders are summarised at pages 26 to 27 of the BAT Annual Report.

Where the Directors do not engage directly with the Company's stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting, and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable to matters under consideration. This enables the Directors to maintain an effective

## Strategic report (continued)

understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making.

The primary engagement channels for Group company employees based in the UK (including the Company's employees) include town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 32 of the BAT Annual Report).

In accordance with the Group's overall governance and internal controls framework and in support of the Company's purpose as part of the Group, the Company applies and the Directors have due regard to all applicable Group policies and procedures, including the Group Statement of Delegated Authorities ("Group SoDA"), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out at pages 28 to 32 of the BAT Annual Report. As a Group company, the Company acts in accordance with the Group's policies in relation to the safeguarding of human rights and community relationships, which are set out at pages 30 to 31 of the BAT Annual Report.

Where authority for decision-making is delegated to management under the Group SoDA, the Group SoDA mandates regard for the likely long-term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with wider stakeholders, the impact of business operations on the environment and communities, and other relevant factors. The Group SoDA is part of the Group's governance and internal controls framework through which good corporate governance, risk management and internal control is promoted within the Group and does not derogate from any requirement for Board review, oversight or approval in relation to the Company's activities.

The Directors receive training in relation to their role and duties as a director on a periodic basis and all newly appointed Directors receive training in respect of their role and duties on appointment. Director training is provided through the Company Secretary. Focus areas for Directors' training during 2019 included a recap on directors' duties under Section 172 of the UK Companies Act.

The principal decisions made by the Directors during the year included review and approval of the Company's annual Modern Slavery Act Statement and review and approval of the Company's Payment Practices Reporting. Examples of how stakeholder considerations and other relevant factors have been taken into account during the decision-making process in these contexts are as follows:

**Modern Slavery Act Statement:** The Board reviewed and approved the Company's annual Modern Slavery Act Statement for adoption by the Company. Key stakeholder interests taken into consideration in making these decisions include those of the Company's shareholder, direct and indirect suppliers and customers, employees, government authorities and wider society in countries in which the Company operates. As part of this review, the Board considered actions being taken to address the risk of human rights issues across the supply chain and the applicable Group policies, governance and controls.

**Payment Practices Reporting:** The Board reviewed the requirements for the Company to publish its payment practice report under the Reporting on Payment Practices and Performance Regulations ('Regulations') and the contents of the Company's payment practice report for the year. The Board also approved the procedure for publication of the Company's payment practice report in accordance with the Regulations. Key factors taken into consideration in relation to these decisions included the interests of the Company's direct and indirect suppliers, the Company's standard payment terms, and its payment processes.

By Order of the Board



Mr P. McCormack  
Secretary

23 September 2020

## Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2019.

### Dividends

During the year the Company paid dividends amounting to £13,049,000 (2018: £9,478,000).

The Company has proposed to pay a dividend on 29 September 2020 amounting to £6,363,000.

### Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2019 to the date of this report are as follows:

David Patrick Ian Booth	
Robert Fergus Heaton	(Resigned 30 April 2020)
Robert James Casey	(Resigned 11 March 2019)
Gregory Aris	(Appointed 22 July 2020)
Anthony Michael Hardy Cohn	(Appointed 22 July 2020)
Ridirectors Limited	(Appointed 22 July 2020)

### Research and development

No research and development expenditure has been incurred during the year (2018: £nil).

### Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

### Employees

The average number of employees employed by the Company during the year was 109 (2018: 114).

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at page 2 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company.

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 26 to 27 of the BAT Annual Report.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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:

## **Directors' Report (continued)**

### **Statement of Directors' responsibilities (continued)**

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### **Directors' declaration in relation to relevant audit information**

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this report confirms that:

- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

By Order of the Board



Mr. P McCormack  
Secretary

23 September 2020

## **Independent Auditor's Report to the members of B.A.T Services Limited**

### **Opinion**

We have audited the financial statements of B.A.T Services Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and loss account, Statement of other comprehensive income, Statement of changes in equity, Balance Sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business mode and analysed how those risks might affect the company's financial resources or ability to continue operations over the going period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **Independent Auditor's Report to the members of B.A.T Services Limited**

### **Matters on which we are required to report by exception**

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

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on pages 3 and 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Natalia Bottomley (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
15 Canada Square  
London, E14 5GL  
23 September 2020



**Profit and loss account for the year ended 31 December**

		<b>2019</b>	<b>2018</b>
		<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>	<b>Note</b>		
Turnover	2	66,505	74,015
Cost of sales	3	(37,649)	(37,431)
Other operating income		148	72
Other operating expenses	3	(20,797)	(20,448)
<b>Operating profit</b>		<b>8,207</b>	<b>16,208</b>
Interest payable and similar expenses	4	(22)	(23)
<b>Profit before taxation</b>		<b>8,185</b>	<b>16,185</b>
Tax on profit	5	(1,964)	(3,040)
<b>Profit for the financial year</b>		<b>6,221</b>	<b>13,145</b>

**Statement of comprehensive income for the year ended 31 December**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit for the financial year</b>	<b>6,221</b>	<b>13,145</b>
Actuarial loss arising on defined benefit pension scheme	(34)	(45)
Deferred tax on actuarial loss	7	22
Differences arising on exchange on the retranslation to sterling of the profit for the financial year from average to closing rates	(39)	364
Differences on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	(193)	260
<b>Total comprehensive income for the financial year</b>	<b>5,962</b>	<b>13,746</b>

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

**Statement of changes in equity for the year ended 31 December**

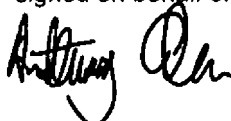
	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
1 January 2018	-	9,182	9,182
Profit for the financial year		13,145	13,145
Dividends Paid	-	(9,478)	(9,478)
	-	12,849	12,849
<b>Other comprehensive income</b>			
Actuarial loss arising on defined benefit pension scheme	-	(45)	(45)
Deferred tax on actuarial loss	-	22	22
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	-	364	364
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	-	260	260
<b>31 December 2018</b>	-	13,450	13,450
Profit for the financial year	-	6,221	6,221
Dividends Paid	-	(13,049)	(13,049)
	-	6,622	6,622
<b>Other comprehensive income</b>			
Actuarial loss arising on defined benefit pension scheme	-	(34)	(34)
Deferred tax on actuarial loss	-	7	7
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	-	(39)	(39)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	-	(193)	(193)
<b>31 December 2019</b>	-	6,363	6,363

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

**Balance sheet as at 31 December**

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	6	39	51
Tangible assets	7	1,378	103
		<b>1,417</b>	<b>154</b>
<b>Current assets</b>			
Stock	8	6,476	13,583
Debtors: amounts falling due within one year	9	18,445	18,478
Cash at bank and in hand		6,515	10,202
Creditors: amounts falling due within one year	10	(25,751)	(28,628)
<b>Net current assets</b>		<b>5,685</b>	<b>13,635</b>
Creditors - amounts falling due after one year		(386)	-
<b>Total assets less current liabilities excluding pension deficit</b>		<b>6,716</b>	<b>13,789</b>
Pensions deficit	13	(353)	(339)
<b>Total assets less current liabilities including pensions deficit</b>		<b>6,363</b>	<b>13,450</b>
<b>Capital and reserves</b>			
Called up share capital	12	-	-
Profit and loss account		6,363	13,450
<b>Total shareholders' funds</b>		<b>6,363</b>	<b>13,450</b>

The financial statements on pages 8 to 23 were approved by the Directors on 23 September 2020 and signed on behalf of the Board.



Mr. A.M.H Cohn  
Director

Registered number 00221104

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

## Notes to the financial statements for the year ended 31 December 2019

### 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 Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101, such as the preparation of a cash flow statement or disclosures regarding financial instruments and transactions with related parties, have been taken.

The Directors have at the time of approving these financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months following the signing of these accounts.

With effect from 1 January 2019, the Company has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-to-use assets and lease liabilities. In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. Total assets and total equity and liabilities on 1 January 2019 have both increased by £1,573,000.

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The most significant items include:

- the review of asset values and impairment testing of financial and non-financial assets;
- the estimation of and accounting for retirement benefits costs;
- the estimation of amounts to be recognised in respect of taxation.

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The accounting policies set out below, have unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### Foreign currencies

The functional currency of the Company is Taiwan Dollars. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year.

Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange. 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.

## Notes to the financial statements for the year ended 31 December 2019

### 1 Accounting policies (continued)

#### Turnover

Turnover comprises sales at invoiced value and is after deducting rebates, returns and similar discounts.

Turnover and Income is recognised in the profit and loss account when all contractual or other applicable conditions for recognition have been met.

#### Other operating expenses

Operating expenses are recorded in period they relate to and are generated in the normal business operations of the company.

#### Taxation

Taxation is that chargeable on the profits for the period, together with deferred taxation.

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

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

Any liabilities or assets recognised for exposures in respect of the payment or recovery of a number of taxes are recognised at such time as an outcome becomes probable and when the amount can reasonably be estimated.

#### 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 rate of depreciation used for plant, machinery and equipment is 20-25%.

#### 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.

## Notes to the financial statements for the year ended 31 December 2019

### 1 Accounting policies (continued)

#### Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value in use.

#### Financial instruments

The Company's business model for managing financial assets is set out in the Group Treasury Manual which notes that the primary objective with regard to the management of cash and investments is to protect against the loss of principal. The majority of financial assets are held in order to collect contractual cash flows (typically loans and other receivables).

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

Financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable, with subsequent measurement as set out below. The Company's financial assets (loans and receivables, amounts owed by Group undertakings, other debtors and cash) are subsequently carried at amortised cost.

Non-derivative financial liabilities, including creditors, are subsequently carried at amortised cost using the effective interest method.

**Loans and receivables:** Amounts owed by Group undertakings and Other debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### Leases

With effect from 1 January 2019, the Company has applied IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment 10 and the liabilities included as part of borrowings 13.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. Total assets and total equity and liabilities on 1 January 2019 have both increased by £1,573,000. The Company has taken advantage of certain practical expedients available under the Standard, including "grandfathering" previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Company has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

Going forward for new leasing arrangements taken out after 1 January 2019, the Company will also adopt several practical expedients available under the Standard including not applying the requirements of IFRS 16 to leases of intangible assets, applying the portfolio approach where appropriate to do so, not applying the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration) and to leases of low-value assets. Except for property-related leases, non-lease components will not be separated from lease components. The Company will continue to report recognised assets and liabilities under leases within property, plant and equipment and borrowings respectively rather than show these as separate line items on the face of the balance sheet.

## Notes to the financial statements for the year ended 31 December 2019

### 1 Accounting policies (continued)

#### Leases (continued)

Lease liabilities are initially recognised at an amount equal to the present value of estimated contractual lease payments at the inception of the lease, after taking into account any options to extend the term of the lease. Lease commitments are discounted to present value using the interest rate implicit in the lease if this can be readily determined, or the applicable incremental rate of borrowing, as appropriate. Right-of-use lease assets are initially recognised at an amount equal to the lease liability, adjusted for initial direct costs in relation to the assets, then depreciated over the shorter of the lease term and their estimated useful lives.

Prior to 1 January 2019, the annual payments under operating leases were charged to the profit and loss account on a straight-line basis over the length of the lease term.

#### Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared and paid.

#### Retirement benefits

The Company operates a defined benefit scheme which provides a lump sum on retirement or leaving service, a defined contribution scheme, and a funded severance scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due.

For defined benefit schemes, pension net surpluses or deficits as at the balance sheet date are recognised in full as an asset or liability respectively. The net deficit or surplus is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. Actuarial gains and losses are recognised as they are incurred in the statement of total recognised gains and losses.

The actuarial cost charged to operating profit consists of current service cost, past service costs and gains or losses on settlements and curtailments. The interest cost and expected return on plan assets are recognised in other finance expenses.

### 2 Turnover and other operating income

	2019	2018
	£'000	£'000
Gross turnover	232,620	246,639
Duty and excise taxes	(166,115)	(172,624)
Net turnover excluding duty and excise taxes	66,505	74,015

Turnover comprises sales of tobacco products in the Taiwan market.

Other operating income relates to recharges of operating expenses to other Group undertakings.

## Notes to the financial statements for the year ended 31 December 2019

### 3 Other operating expenses

	2019 £'000	2018 £'000
<b>Cost of sales:</b>		
Purchases of goods for resale	37,089	34,429
Change in stocks of finished goods and goods for resale	560	3,002
	<b>37,649</b>	<b>37,431</b>

	2019 £'000	2018 £'000
<b>Other operating expenses comprise:</b>		
Staff costs	6,106	5,710
Depreciation of tangible assets	974	62
Intangible amortisation	12	-
Operating lease charges:		
- buildings	47	542
- others	32	219
Auditors' remuneration:		
- Audit services	14	14
Other charges	13,612	13,901
	<b>20,797</b>	<b>20,448</b>

	2019 £'000	2018 £'000
<b>Staff costs:</b>		
Wages and salaries	5,270	4,912
Social security costs	364	563
Share based payments	274	179
Defined benefit scheme cost (note 13)	4	(168)
Defined contribution scheme costs	194	224
	<b>6,106</b>	<b>5,710</b>

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

	2019 Number	2018 Number
<b>By activity:</b>		
Administration	17	15
Marketing	92	99
	<b>109</b>	<b>114</b>



# Notes to the financial statements for the year ended 31 December 2019

## 4 Interest payable and similar charges

	2019 £'000	2018 £'000
Bank loans and overdrafts	22	23
	<b>22</b>	<b>23</b>

## 5 Taxation

### (a) Recognised in the profit and loss account

	2019 £'000		2018 £'000	
<i>Foreign tax</i>				
Current tax on income for the period	1,871		3,142	
<b>Total current tax</b>		<b>1,871</b>		<b>3,142</b>
<i>Deferred tax</i>				
Origination and reversal of temporary differences	93		(102)	
<b>Total deferred tax</b>		<b>93</b>		<b>(102)</b>
<b>Total income tax expense</b>		<b>1,964</b>		<b>3,040</b>

## Notes to the financial statements for the year ended 31 December 2019

### 5 Taxation (continued)

#### (b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2018: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2019 £'000	2018 £'000
Profit for the year	6,221	13,146
Total tax expense	1,964	3,040
Profit excluding taxation	8,185	16,186
Tax using the UK corporation tax rate of 19% (2018: 19%)	1,555	3,075
Non-deductible expenses	173	71
Other temporary differences	-	(171)
Transfer pricing adjustments	(2)	-
Group relief (claimed)/surrendered	2	-
Foreign tax suffered	1,871	3,142
Overseas branch exemption	(1,635)	(3,077)
Total tax charge for the year	1,964	3,040

#### (c) Deferred tax recognised in other comprehensive income

	2019 £'000	2018 £'000
Deferred tax on pension	7	22
Total	7	22

The profits of the branch in Taiwan are not taxable in the UK. As there are no UK operations, all current and deferred tax balances therefore arise in Taiwan. As the entity is incorporated in the UK, the applicable tax rate used in the tax reconciliation is the UK statutory rate of 19%.

## Notes to the financial statements for the year ended 31 December 2019

## 6 Intangible assets

	Intangible £'000
<b>Cost</b>	
At 1 January 2019	51
<b>At 31 December 2019</b>	<b>51</b>
<b>Accumulated depreciation</b>	
At 1 January 2019	-
Charge for the year	12
<b>At 31 December 2019</b>	<b>12</b>
<b>Net book value</b>	
At 1 January 2019	51
<b>At 31 December 2019</b>	<b>39</b>

## 7 Tangible assets

	Fixtures and fittings £'000	Plant, machinery and equipment £'000	Leasehold Asset £'000	Total £'000
<b>Cost</b>				
At 1 January 2019	1,064	778	-	1,842
Adoption of IFRS 16			1,573	1,573
Differences on exchange	(15)	(11)	-	(26)
Additions	28	80	722	830
Disposal	(217)	(122)	(324)	(662)
<b>At 31 December 2019</b>	<b>860</b>	<b>725</b>	<b>1,971</b>	<b>3,558</b>
<b>Accumulated depreciation</b>				
At 1 January 2019	1,064	675	-	1,739
Differences on exchange	(15)	(10)	(5)	(31)
Charge for the year	5	45	924	974
Disposal	(217)	(122)	(163)	(502)
<b>At 31 December 2019</b>	<b>837</b>	<b>588</b>	<b>756</b>	<b>2,180</b>
<b>Net book value</b>				
At 1 January 2019	-	103	-	103
<b>At 31 December 2019</b>	<b>23</b>	<b>137</b>	<b>1,217</b>	<b>1,378</b>

## 8 Stock

	2019 £'000	2018 £'000
Finished goods and goods for resale	6,476	13,583

## Notes to the financial statements for the year ended 31 December 2019

## 9 Debtors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade debtors	17,735	17,020
Amounts owed by Group undertakings	275	1,094
Corporate tax receivable	166	-
Deferred tax asset (note 11)	269	364
	<b>18,445</b>	<b>18,478</b>

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

## 10 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	14,817	12,664
Amounts owed to Group undertakings	9,388	12,768
Taxation and social security	323	2,839
Leasehold liabilities (note 14)	811	-
Other creditors	412	357
	<b>25,751</b>	<b>28,628</b>

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

## 11 Deferred taxation

	£'000
Deferred taxation asset, 1 January 2019	364
Charge for the year (note 5a)	(93)
Exchange difference	(2)
31 December 2019	<b>269</b>

	2019 £'000	2018 £'000
Deferred taxation comprises:		
Other timing differences	269	364
	<b>269</b>	<b>364</b>

## 12 Called up share capital

	2019	2018
Ordinary shares of £1 each		
Allotted, called up and fully paid		
- value	£100	£100
- number	100	100

## Notes to the financial statements for the year ended 31 December 2019

### 13 Retirement benefits

The Company does not participate in any United Kingdom pension funds. However, its branch in Taiwan operates both a defined benefit scheme, which provides a lump sum on retirement or leaving service, and a defined contribution scheme.

#### Defined contribution scheme

The Company operates a defined contribution pension plan in accordance with local pension legislation. The scheme is mandatory for all new employees and existing employees have the option to change from the defined benefit scheme to the defined contribution scheme. Contributions to the defined contribution scheme are made by the Company at a rate of 6% of salary.

The total operating pension cost to the Company in respect of defined contribution scheme pensions, was £194,000 (2018: £224,000).

#### Defined benefit scheme

The Company's branch in Taiwan has operated an defined benefit scheme since 2008, which provides a lump sum on retirement or leaving service. An actuarial valuation of the scheme as at 31 December 2019 was performed by PACT Co. Ltd, an independent actuary.

Contributions to the defined benefit scheme are made in accordance with local labor law minimum requirements at 2% of payroll. The most recent actuarial valuation as at 31 December 2019 was performed by Professional Actuary Management Consulting Co. Ltd., an independent actuary. The value attributed to the fund was £593,000 (2018: £554,000), and the deficit was £353,000 (2018: £339,000) which represents a funding ratio of 60% (2018: 62%).

	2019	2018
	Funded schemes	Funded schemes
	£'000	£'000
Fair Value of the assets	593	554
Present value of unfunded scheme liabilities	(946)	(893)
Pension deficit	(353)	(339)

The amounts recognised in the income statement for the defined benefit schemes are as follows:

	2019	2018
	£'000	£'000
Defined benefit schemes		
Service cost		
– past service cost	-	49
– Gains arising from curtailment and settlement	-	126
Net interest on the net defined benefit liability		
– interest on scheme assets	(4)	(7)
– interest on unrecognised funded scheme surpluses	-	-
Total amount recognised in the income statement (Note 3)	(4)	168

## Notes to the financial statements for the year ended 31 December 2019

### 13 Retirement benefits (continued)

The amounts recognised in other comprehensive income in respect of actuarial gains and losses of the company are as follows:

	2019 £'000	2018 £'000
Actuarial losses on scheme liabilities	(34)	(45)
Net actuarial losses in other comprehensive income	(34)	(45)

The movements in scheme liabilities are as follows:

	2019 £'000	2018 £'000
Present value at 1 January	(893)	(1,153)
Exchange differences	(7)	(33)
Past service cost	-	51
Settlements and curtailments	-	322
Interest on scheme liabilities	(12)	(18)
Actuarial losses	(34)	(62)
Present value at 31 December	(946)	(893)

Scheme liabilities by scheme membership:

	2019	2018
Active members	34	34

The movements in funded scheme assets are as follows:

	2019 £'000	2018 £'000
Fair value at beginning of period	554	678
Exchange differences	(9)	20
Gain/Losses on settlements and curtailments	-	(193)
Interest on scheme assets	28	10
Actuarial gain	-	17
Company contributions	20	22
Fair value at end of period	593	554

The fair value of scheme assets by category:

	2019	2018
Other assets – unlisted	593	554
Fair value of scheme assets at 31 December	593	554

## Notes to the financial statements for the year ended 31 December 2019

### 13 Retirement benefits (continued)

Actuarial losses shown above can be analysed as follows:

	2019 £'000	2018 £'000
Actuarial losses:		
- arising from changes in financial assumptions	(64)	(31)
- arising from changes in demographic assumptions	(6)	-
Experience loss	16	(14)
Return on plan assets	20	-
Total	(34)	(45)

Changes in financial assumptions principally relate to discount rate and inflation rate movements.

The principal actuarial assumptions used (weighted to reflect individual scheme differences) are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

	2019 %	2018 %
Rate of increase in salaries	4%	4%
Discount rate	0.875%	1.375%

	2019 Funded	2018 Funded
Weighted average duration of liabilities	14.2	15.0

The weighted average life expectancy in years for mortality tables used to determine the defined benefit obligations is as follows:

	2019 Years	2018 Years
Member age 65 (current life expectancy)		
- male	18.3	18.3
- female	21.5	21.5
Member age 45 (life expectancy at age 65)		
- male	39.6	39.6
- female	34.6	34.6

## Notes to the financial statements for the year ended 31 December 2019

### 14 Adoption of new accounting standards effective 1 January 2019

With effect from 1 January 2019, the Company adopted IFRS 16 *Leases* with no revision of prior periods, as permitted by the Standard. In accordance with IFRS 16, the distinction between operating leases and finance leases is removed with the effect that virtually all leasing arrangements are brought on the balance sheet as financial obligations and "right-to-use asset".

As disclosed in note 1 the anticipated impact of IFRS 16 to the Group's balance sheet as at 1 January 2019 was the capitalisation of £1,573,000 right-to-use assets and financial liabilities of £1,573,000.

In 2019, as part of the implementation of IFRS 16, further commitments were identified and consequently the financial obligations and "right-to-use" assets increased. The impact of the new Standard to the Company's balance sheet at 1 January 2019, and a reconciliation to reported leasing commitments, is shown below:

Minimum lease commitments	£000
<b>Property</b>	
Within one year	718
Between one and five years	570
<b>Plant and equipment</b>	
Within one year	317
Between one and five years	64
<b>Total minimum lease commitments</b>	<b>1,669</b>
Additional commitments on the exercise of options	-
Low value leases and short-term leases excluded	(20)
Discounted to present value	(76)
<b>To be capitalised as lease liabilities at 1 January 2019</b>	<b>1,573</b>
Prepaid leases reclassified from receivables	-
<b>To be capitalised as right-to-use assets at 1 January 2019</b>	<b>1,573</b>

The weighted average incremental borrowing rate applied in discounting lease commitments was 1.34%.

### 15 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

### 16 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 B.A.T (U.K. and Export) 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