

B.A.T Services Limited
Registered Number 221104

Directors' Report and Accounts

For the year ended 31 December 2001



B.A.T Services Limited

Directors' report

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2001 to the date of this report are as follows:

	Appointed	Resigned
Aileen Elizabeth McDonald	1 January 2001	27 August 2002
Russell Scott Cameron		1 August 2002
Michael Lee Hendershot		29 March 2002
Mah Yong Tian		31 July 2002
Donald Neil Fred Salter		16 April 2002
Mark Anthony Oliver	1 January 2001	31 July 2002
Alan Fraser Porter	Chairman 29 August 2002	
Robert James Casey	16 April 2002	
Gottfried Thoma	1 August 2002	
Christopher David Powell	16 April 2002	
Charl Erasmus Steyn	16 April 2002	

Directors' interests

The interests of those persons who were Directors at 31 December 2001 in the share capital and share option and award schemes of British American Tobacco p.l.c., according to the register maintained under section 325 of the Companies Act 1985, are shown below.

Ordinary 25p shares

	1 January 2001	31 December 2001
R S Cameron	15,026	16,165
M L Hendershot	1,420	1,657
Y T Mah	1,465	2,162
A E McDonald	6,765	11,071
M A Oliver	1,737	2,893
D N F Salter	4,819	3,416

In addition to the shares shown above, during the year the Directors held the following interests in the ordinary shares of British American Tobacco p.l.c. which are held in trust pursuant to the British American Tobacco Deferred Share Bonus Scheme:

Ordinary 25p shares

	1 January 2001	31 December 2001
R S Cameron	22,075	29,294
M L Hendershot	26,272	35,143
Y T Mah	-	2,684
A E McDonald	15,952	21,267
M A Oliver	13,087	16,983
D N F Salter	-	-

Details of the Deferred Share Bonus Scheme are included in the Report and Accounts of British American Tobacco p.l.c

B.A.T Services Limited

Directors' report

Directors' interests (continued)

British American Tobacco p.l.c. Share option and award schemes

	1 January 2001	Granted	Exercised	31 December 2001
R S Cameron	114,731	21,657	-	136,388
M L Hendershot	81,047	26,613	-	107,660
Y T Mah	-	5,369	-	5,369
A E McDonald	52,695	15,943	21,091	47,547
M A Oliver	27,720	7,793	-	35,513
D N F Salter	5,305	395	1,335	4,365

In addition, on 31 December 2001, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Plan held a total of 32,171,834 ordinary shares in British American Tobacco p.l.c. (1 January 2001: 30,647,059 ordinary shares). All employees, including the Directors of the Company, are deemed to have a beneficial interest in the shares that are held by the trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards for options granted under the British American Tobacco Share Option Scheme or awards of ordinary shares made under the British American Tobacco Long Term Incentive Scheme and the British American Tobacco Deferred Share Bonus Scheme.

Details of the trusts and the share option and award schemes are included in the Report and Accounts of British American Tobacco p.l.c.

Review of the year to 31 December 2001

During the year the Company extended its activities to include the importation and distribution of tobacco products in Taiwan. The loss for the year attributable to the shareholders of B.A.T Services Limited after deduction of all charges and the provision of tax amounted to £1,653,000 (2000: £67,000).

Dividends

The Directors do not recommend the payment of a dividend (2000: £nil). The loss for the year of £1,653,000 (2000: £67,000) will be transferred to reserves.

Principal activities

The principal activity of the Company is to operate a branch in Taiwan to promote and distribute tobacco products in that country.

B.A.T Services Limited

Directors' report

European Monetary Union

The Company, as a matter of policy, actively supports Economic and Monetary Union as a means of delivering increased stability and prosperity. The Group's European companies are successfully transacting business in the euro following its introduction in twelve European countries on 1 January 2002 and those in the UK are capable of doing so.

Creditor payment policy

The Company 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:

- settle 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.

The proportion which the amount owed to trade creditors at 31 December 2001 bears to the amounts invoiced by suppliers during the year then ended equated to a 49 days proportion of 365 days (2000: 114 days).

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that 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 those financial statements, the Directors are required to:

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

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

B.A.T Services Limited

Directors' report

Directors' responsibilities (continued)

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in the statement.

Auditors

The Directors have been advised that PricewaterhouseCoopers are willing to continue as auditors of the Company and a resolution for their reappointment and on their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Secretary

19th December 2002

Auditors' report to the members of B.A.T Services Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions is not disclosed.

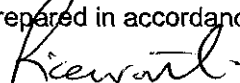
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 2001 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
1 Embankment Place
London WC2N 6RH

19 December 2002

B.A.T Services Limited

Profit and loss account

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Net Turnover	2	36,185	-
Operating income	3	-	3,473
Operating charges	4	(38,075)	(3,373)
Operating profit		(1,890)	100
Interest receivable and similar income	6	11	11
Interest payable and similar charges	7	(259)	-
(Loss)/profit on ordinary activities before taxation		(2,138)	111
Tax credit/(charge) on (loss)/profit on ordinary activities	8	485	(44)
(Loss)/profit for the financial year		(1,653)	67

All the activities during the year are in respect of continuing operations.

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

Statement of total recognised gains and losses

For the year ended 31 December 2001

		2001 £'000	2000 £'000
(Loss)/profit for the year		(1,653)	67
Difference arising on the retranslation of the retained profit from average to closing rates of exchange	15	74	(3)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	15	(13)	6
Total recognised (losses)/gains		(1,592)	70

The notes on pages 9 to 15 form part of these accounts.

B.A.T Services Limited

Balance Sheet – 31 December 2001

	Note	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	9	248	-
Current assets			
Stocks	10	11,224	1,098
Debtors – amounts falling due within one year	11	8,684	713
Cash and short term deposits		103	412
		20,011	2,223
Creditors – amounts falling due within one year	12	(21,491)	(1,863)
Net current (liabilities)/assets		(1,480)	360
Total assets less current liabilities		(1,232)	360
<hr/>			
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	(1,232)	360
Total equity shareholders' funds	15	(1,232)	360

The financial statements on pages 7 to 15 were approved by the Directors on 19 December 2002 and signed on their behalf by:

Director



The notes on pages 9 to 15 form part of these accounts.

B.A.T Services Limited

Notes to the accounts – 31 December 2001

1 Accounting policies

A summary of the principal accounting policies is set out below.

(1) Basis of accounting

The financial statements are prepared in accordance with Accounting Standards applicable in the United Kingdom and under the historical cost convention.

(2) 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 is exempt under the terms of Financial Reporting Standard 1(Revised) from publishing a cash flow statement.

(3) Foreign currencies

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. Other exchange differences, including those on remittances, are reflected in the profit and loss account.

(4) Taxation

Taxation is provided on the profits of the period together with deferred taxation.

The Company has adopted FRS19 Deferred Tax for 2001. Deferred taxation is provided for in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computations. In adopting FRS19 the Company has chosen not to discount deferred tax assets and liabilities

(5) Accounting for income

Income is accounted for on a receivable basis. Where delays are anticipated in the receipt of monies from overseas, provision is made in accordance with the concept of prudence.

(6) Pension costs

The costs of providing pensions, calculated by reference to actuarial valuations, are charged against profits on a systematic basis. Where surpluses and deficits arise they are allocated over the expected average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension schemes are treated as assets or liabilities in the balance sheet.

B.A.T Services Limited

Notes to the accounts – 31 December 2001

(7) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated on a straight-line basis to write off the cost of tangible fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal. The rates of depreciation used are 10 to 20%:

(8) Stock

Stocks are valued at the lower of cost and net realisable value.

(9) Leases

Assets held under finance leases are included under tangible fixed assets at their capital value and depreciated over their estimated useful lives. Leasing payments consist of capital and finance charge elements and the finance element is charged to the profit and loss account. Future lease obligations are included in other creditors. Operating lease rentals are charged to the profit and loss account during the period in which they are incurred.

2 Net Turnover

	2001 £'000	2000 £'000
Net Turnover	36,185	-

In 2000, the Company activities were confined to a marketing service company.

3 Operating income

	2001 £'000	2000 £'000
Other operating income	-	3,473

Operating income comprises technical and advisory fees received and commission income.

B.A.T Services Limited

Notes to the accounts – 31 December 2001

4 Operating charges

	2001 £'000	2000 £'000
Raw materials, consumables and goods for resale	34,820	1,098
Operating leases	658	286
Staff costs	2,741	1,921
Auditors' fees	12	6
Depreciation	24	-
Other operating charges	9,946	1,160
	48,201	4,471
(Increase) in stock of finished goods	(10,126)	(1,098)
	38,075	3,373

Staff costs:

Wages and salaries	2,570	1,562
Social security costs	109	103
Other pension costs	62	256
	2,741	1,921

The Company has annual commitments in respect of operating leases as follows:

	2001 Building £'000	2000 Building £'000
Expiring within one year	383	384
2 – 5 years	-	326
Beyond 5 years	-	-
	383	710

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

	2001 Number	2000 Number
Administration	18	14
Marketing	65	59
	83	73

5 Directors' emoluments

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2000: £nil).

B.A.T Services Limited

Notes to the accounts – 31 December 2001

6 Interest receivable and similar income

	2001 £'000	2000 £'000
Bank interest	11	11

7 Interest payable and similar charge

	2001 £'000	2000 £'000
Bank interest	259	-

8 Tax on profit on ordinary activities

(1) Summary of tax on ordinary activities

	2001 £'000	2000 £'000
United Kingdom corporation tax at 30% (2000: 30.00%)	-	44
Less: Double taxation relief	-	(44)
	-	-
Overseas taxation	(485)	44
	(485)	44

(2) Factors affecting the tax charge for the year

The current tax charge for the year differs from the standard 30% rate of Corporation tax in the UK. The major causes of this difference are listed below:

	2001 £'000	2000 £'000
(Loss)/profit on ordinary activities before tax	(2,138)	111
Corporation tax (credit)/charge at 30% (2000: 30%) on profit before tax	(641)	33
Permanent differences	558	
Overseas taxation (credit)/charge	83	44
Group loss relief surrendered/(utilised) at less than full consideration	(485)	(33)
Total current taxation (credit)/charge	(485)	44

B.A.T Services Limited

Notes to the accounts – 31 December 2001

9 Tangible fixed assets

	Fixtures and Fittings £'000	Machinery Plant and Equipment £'000	Total £'000
Cost			
At 1 January 2001	0	0	0
Expenditure	60	212	272
At 31 December 2001	60	212	272
Depreciation			
At 1 January 2001	0	0	0
Charge for the year	3	21	24
At 31 December 2001	3	21	24
Net book value			
At 31 December 2001	57	191	248
At 31 December 2000	0	0	0

Capital commitments

At 31 December 2001, no contracts have been placed capital items (2000: £nil).

10 Stocks

	2001 £'000	2000 £'000
Goods purchased for resale	11,224	1,098

11 Debtors – amounts falling due within one year

	2001 £'000	2000 £'000
Trade debtors	7,736	115
Other debtors	358	214
Amounts owed by group undertakings	36	301
Prepayments and accrued income	69	83
Overseas taxation recoverable	485	-
	8,684	713

B.A.T Services Limited

Notes to the accounts – 31 December 2001

12 Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Bank loans	12,715	808
Trade creditors	1,231	186
Amounts owed to group undertakings	5,244	377
Taxation and social security	-	26
Accruals and deferred income	2,301	466
	21,491	1,863

Bank loans are repayable within one year with interest payable at rates up to 3.22% per annum.

13 Share capital

Ordinary shares of £1 each

	2001	2000
Authorised - value	£1,000	£1,000
- number	1,000	1,000
Allotted, called up and fully paid		
- value	£100	£100
- number	100	100

14 Reserves

	Profit and loss account £'000
1 January 2001	360
Retained (Loss)	(1,653)
Differences on exchange	61
31 December 2001	(1,232)

15 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Loss/profit attributable to shareholders for the year	(1,653)	67
Differences on exchange	61	3
Net transfer to shareholders' funds	(1,592)	70
Opening shareholders' funds	360	290
Closing shareholders' funds	(1,232)	360

B.A.T Services Limited

Notes to the accounts – 31 December 2001

16 Pensions

Accounting Standard FRS17 on Retirement Benefits was issued in December 2000 which represents a radical change in accounting for pension costs and other post retirement benefits. Full application of FRS17 is not mandatory until accounting periods ending on or after 22 June 2003. Therefore, during 2001, the Company has continued to account for pension costs in accordance with SSAP24 Accounting for Pension Costs and the information shown above has been prepared in accordance with this standard. As the Company has not yet fully adopted FRS17 the information provided below reflects its initial transitional disclosure requirements.

The Company does not participate in any United Kingdom pension funds. However, its branch in Taiwan operates a funded defined benefit externally funded scheme which provides a lump sum on retirement or leaving service. Contributions to the scheme are made in accordance to local labour law requirements at 2% payroll with the advice of a qualified actuary. The most recent actuarial valuation available made as at 31 December 2001 and showed a deficit of £215,417 which represents a funding ratio of 73%. The valuation was performed by Watson Wyatt, an independent actuary. The main assumptions used were that salaries will increase by 4.25 % per annum. The rate of return on investments will be 4.25% per annum. Contributions have been assessed for the employer at the rate of 12.6%.

The total pension cost charged to the profit and loss account was £62,000.

If FRS17 had been applied to the balance sheet at 31 December 2001 the impact would have been to decrease shareholders' funds by £161,617 being £215,417 less related deferred tax of £53,854.

17 Related parties

The Company has taken advantage of the exemption under paragraph 3(c) of the Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

18 Parent support

The immediate parent company has indicated its willingness to continue to provide support to allow the Company to continue at its current level of operations for the foreseeable future.

19 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is B.A.T (U.K. and Export) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

B.A.T Services Limited

Notes to the accounts – 31 December 2001

20 Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from:

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