

B.A.T Services Limited
Registered Number 221104

Directors' Report and Accounts

For the year ended 31 December 2003



B.A.T Services Limited

Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2003.

Principal activities

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

Review of the year to 31 December 2003

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 £2,065,000 (2002: £659,000).

Dividends

The Directors do not recommend the payment of a dividend (2002: £nil). The loss for the year of £2,065,000 (2002: £659,000) is transferred from reserves.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2003 to the date of this report are as follows:

Alan Fraser Porter	Chairman
Robert James Casey	
Gottfried Thoma	
Christopher David Powell	
Charl Erasmus Steyn	

B.A.T Services Limited

Directors' report

Directors' interests

The interests of those persons who were Directors at 31 December 2003 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.

British American Tobacco p.l.c. Ordinary 25p shares

	1 January 2003	31 December 2003
A F Porter	3,903	9,246
R J Casey	10,667	10,985
G Thoma	4,610	101,253
C D Powell	2,208	2,795
C E Steyn	3,322	6,701

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:

British American Tobacco p.l.c. Ordinary 25p shares

	1 January 2003	31 December 2003
A F Porter	22,516	13,258
R J Casey	39,560	23,408
G Thoma	40,928	25,709
C D Powell	8,019	13,540
C E Steyn	26,935	14,805

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

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

	1 January 2003	Granted	Lapsed	Exercised	31 December 2003
A F Porter	39,568	15,677	-	20,904	34,341
R J Casey	119,054	23,717	6,945	-	135,826
G Thoma	153,156	31,104	7,363	97,579	79,318
C D Powell	34,485	17,255	-	-	51,740
C E Steyn	83,291	16,052	5,051	30,384	63,908

B.A.T Services Limited

Directors' report

Directors' interests (continued)

In addition, on 31 December 2003, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Plan held a total of 31,945,642 ordinary shares in British American Tobacco p.l.c. (1 January 2003: 37,696,678 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 Plan 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.

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:

- 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.
- avoid any delays when legitimately questioning invoices

The proportion which the amount owed to trade creditors at 31 December 2003 bears to the amounts invoiced by suppliers during the year then ended equated to a 48 days proportion of 365 days (2002: 43 days).

B.A.T Services Limited

Directors' report

Statement of 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 appropriate 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 being disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless the Directors consider 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.

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 this statement.

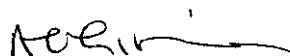
Parent support

The 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.

Auditors

The Directors have been advised that PricewaterhouseCoopers LLP are willing to continue as auditors and a resolution for their reappointment will be proposed at the annual general meeting.

On behalf of the Board



A.C. Girling
Assistant Secretary

17th December 2004

B.A.T Services Limited

Independent 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 statement of total recognised gains and losses, the balance sheet 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. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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.

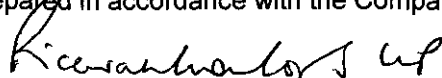
Basis of audit opinion

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 2003 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

17th December 2004

B.A.T Services Limited

Profit and loss account

For the year ended 31 December 2003

	<i>Note</i>	2003 £'000	2002 £'000
Turnover	2	34,655	33,673
Operating income	3	-	2
Operating charges	4	(36,110)	(34,287)
Operating loss		(1,455)	(612)
Interest receivable and similar income	6	-	5
Interest payable and similar charges	7	(43)	(174)
Loss on ordinary activities before taxation		(1,498)	(781)
Tax (charge)/credit on ordinary activities	8	(567)	122
Retained loss for the financial year		(2,065)	(659)

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

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

Statement of total recognised gains and losses

For the year ended 31 December 2003

		2002 £'000	2002 £'000
Loss for the financial year		(2,065)	(659)
Difference arising on the retranslation to sterling of the retained loss from average to closing rates of exchange	15	155	47
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	15	151	109
Total recognised losses		(1,759)	(503)

The notes on pages 9 to 18 form part of these accounts.

B.A.T Services Limited

Balance Sheet – 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	9	695	773
Current assets			
Stocks	10	3,921	2,551
Debtors	11	6,995	6,552
Cash and short term deposits		246	110
		11,162	9,213
Creditors – amounts falling due within one year	12	(14,684)	(11,441)
Net current liabilities		(3,522)	(2,228)
Total assets less current liabilities		(2,827)	(1,455)
Provisions for liabilities and charges	13	(667)	(280)
Net liabilities		(3,494)	(1,735)
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account	15	(3,494)	(1,735)
Total equity shareholders' funds	16	(3,494)	(1,735)

The financial statements on pages 7 to 18 were approved by the Directors on 17th December 2004 and signed on their behalf by:



C.E. Steyn
Director

The notes on pages 9 to 18 form part of these accounts.

B.A.T Services Limited

Notes to the accounts – 31 December 2003

1 Accounting policies

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

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom Accounting Standards

(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 1996) from publishing a cash flow statement.

(3) Foreign currencies

The financial statements are presented in pounds sterling having been translated from Taiwan dollars, the functional currency of the branch. Assets and liabilities are translated at closing rates of exchange. The difference between the retained profit of the overseas branch translated to sterling 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. Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange.

The Taiwan dollars per £ exchange rates used in translation are:

	2003	2002
Closing rate	60.78	55.97
Average rate	56.25	51.96

(4) Taxation

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

Deferred taxation is accounted for on an undiscounted basis at expected tax rates on all differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be deducted.

(5) Turnover

Turnover comprises sales at the invoice value to external customers and other group companies.

B.A.T Services Limited

Notes to the accounts – 31 December 2003

(6) Pension costs

The costs of providing pensions, calculated by reference to actuarial valuations, are charged against profits on a systematic basis. The amounts accrued in respect of the unfunded pension liabilities are included within provisions.

The Company has continued to account for retirement benefit costs in accordance with SSAP24 Accounting for Pension Costs. The transitional disclosures required by FRS17 Retirement Benefits for 2003 are set out in note 17 on pages 15 to 17.

(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 as follows

Plant and machinery	- 20%
Fixtures and fittings	- 10%

(8) Stocks

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

(9) Leased assets

The annual payments under operating leases are charged to the profit and loss account.

2 Turnover

	2003 £'000	2002 £'000
Turnover	34,655	33,673

Turnover comprises sales in the Taiwan market

3 Operating income

	2003 £'000	2002 £'000
Other operating income	-	2

B.A.T Services Limited

Notes to the accounts – 31 December 2003

4 Operating charges

	2003 £'000	2002 £'000
Raw materials, consumables and goods for resale	22,903	11,521
Operating leases	605	636
Staff costs	4,021	3,321
Auditors' fees	33	31
Depreciation	135	58
Other operating charges	9,783	10,047
	37,480	25,614
(Increase)/ decrease in stock of finished goods	(1,370)	8,673
	36,110	34,287

Staff costs:		
Wages and salaries	3,358	2,826
Social security costs	135	125
Other pension costs	528	370
	4,021	3,321

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

	2003 Number	2002 Number
Administration	23	21
Marketing	79	68
	102	89

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

	2003 Buildings £'000	2002 Buildings £'000
Expiring within one year	435	508
2 – 5 years	85	357
Beyond 5 years	-	-
	520	865

5 Directors' emoluments

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2002: £nil).

B.A.T Services Limited

Notes to the accounts – 31 December 2003

6 Interest receivable and similar income

	2003 £'000	2002 £'000
Bank interest	-	5

7 Interest payable and similar charges

	2003 £'000	2002 £'000
Bank interest	43	174

8 Tax on profit on ordinary activities

(1) Summary of tax on ordinary activities

	2003 £'000	2002 £'000
United Kingdom corporation tax at 30% (2002: 30.00%)	-	-
Less: Double taxation relief	-	-
Overseas taxation	-	-
Deferred taxation (charge)/credit	(567)	122
Tax (charge)/credit	(567)	122

(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:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(1,498)	(781)
Corporation tax credit at 30% (2002: 30%) on loss before tax	(449)	(234)
Permanent differences	109	114
Timing differences	140	-
Group loss relief surrendered at less than full consideration	200	120
Total current taxation credit	-	-

B.A.T Services Limited

Notes to the accounts – 31 December 2003

9 Tangible fixed assets

	Fixtures and Fittings £'000	Machinery, Plant and Equipment £'000	Total £'000
Cost			
At 1 January 2003	144	705	849
Difference on exchange	(17)	(57)	(74)
Expenditure	178	34	212
Disposals	(98)	(19)	(117)
At 31 December 2003	207	663	870
Depreciation			
At 1 January 2003	8	68	76
Difference on exchange	(1)	(14)	(15)
Charge for the year	13	122	135
Disposals	(14)	(7)	(21)
At 31 December 2003	6	169	175
Net book value			
At 31 December 2003	201	494	695
At 31 December 2002	136	637	773

The Company does not hold any assets under finance leases (2002: £nil).

Capital commitments

At 31 December 2003, no contracts have been placed for capital items (2002: £nil).

10 Stocks

	2003 £'000	2002 £'000
Goods purchased for resale	3,921	2,551

11 Debtors

	2003 £'000	2002 £'000
Amounts falling due within one year		
Trade debtors	6,118	5,119
Other debtors	581	657
Amounts owed by group undertakings	172	39
Prepayments and accrued income	124	183
Overseas taxation recoverable	-	19
	6,995	6,017
Amounts falling due after more than one year - Deferred tax	-	535
	6,995	6,552

B.A.T Services Limited

Notes to the accounts – 31 December 2003

Debtors (continued)

The deferred tax asset movement during the year comprised:

	Pensions	Losses	Stocks and other items	Total
	£'000	£'000	£'000	£'000
1 January 2003	70	89	376	535
Credit/(charge) to the profit and loss account	(74)	(94)	(399)	(567)
Differences on exchange	4	5	23	32
31 December 2003	-	-	-	-

12 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Bank loans	1,020	3,091
Trade creditors	2,658	1,511
Amounts owed to group undertakings	7,272	3,886
Accruals and deferred income	3,734	2,953
	14,684	11,441

Bank loans are repayable within one year with interest payable at rates up to 2.85% per annum.

13 Provision for liabilities and charges

Provision for liabilities and charges comprise amounts in respect of the Company's pension scheme (see Note 17).

	£'000
1 January 2003	280
Charge for the year	444
Differences on exchange	(57)
31 December 2003	667

14 Share capital

Ordinary shares of £1 each

	2003	2002
Authorised - value	£1,000	£1,000
- number	1,000	1,000
Allotted, called up and fully paid		
- value	£100	£100
- number	100	100

B.A.T Services Limited

Notes to the accounts – 31 December 2003

15 Reserves

	Profit and loss account £'000
1 January 2003	(1,735)
Retained loss	(2,065)
Differences on exchange	306
31 December 2003	(3,494)

16 Reconciliation of movements in equity shareholders' funds

	2003 £'000	2002 £'000
Loss attributable to shareholders for the year	(2,065)	(659)
Differences on exchange	306	156
Net transfer to shareholders' funds	(1,759)	(503)
Opening equity shareholders' funds	(1,735)	(1,232)
Closing equity shareholders' funds	(3,494)	(1,735)

17 Pensions

The Company does not participate in any United Kingdom pension funds. However, its branch in Taiwan operates an unfunded defined benefit scheme which provides a lump sum on retirement or leaving service. Contributions to the scheme are made in accordance with local labour law requirements at 2% of payroll cost based on advice from a qualified actuary. The most recent actuarial valuation as at 31 December 2003 was performed by Watson Wyatt, an independent actuary. The value attributed to the fund was £296,000 (2002: £418,979) and the deficit was £667,000 (2002: £439,562) which represents a funding ratio of 31% (2002: 49%). The main assumptions used were that (a) salaries will increase by 3.25% per annum (2002: 3.5%), (b) the rate of return on investments will be 3.25% per annum (2002: 3.5%) and (c) a discount rate of 3.25% (2002: 3.5%).

The total pension cost charged to the profit and loss account was £528,000 (2002: £370,000).

FRS17 Retirement Benefits

During 2003, the Company has continued to account for retirement benefits in accordance with SSAP 24 Accounting for Pension Costs and the information shown above has been prepared in accordance with this standard. The Company has not yet fully adopted FRS17 but the information provided below reflects its initial transitional disclosure requirements.

B.A.T Services Limited

Notes to the accounts – 31 December 2003

	2003 %	2002 %	2001 %
Rate of increase in salaries	3.25	3.5	4.25
Discount rate	3.25	3.5	4.25

The net pension assets and liabilities at 31 December 2003 were as follows:

	2003 £'000	2002 £'000	2001 £'000
Fair value of Fund assets	296	419	579
Present value of scheme's liabilities	(963)	(859)	(794)
Net deficit in scheme	(667)	(440)	(215)
Related deferred tax asset	-	110	54
Net pension liabilities	(667)	(330)	(161)

The long term rate of return expected at 31 December 2003 in respect of the Scheme's assets was 3.25% (2002: 3.5%, 2001:4.25%).

There is no deferred tax asset recognised in the above table for 2003 as such an asset would not be considered recoverable upon full adoption of FRS17

The accounts already reflect liabilities relating to the scheme of £667,000 (2002: £210,000, 2001: nil). If the net scheme liabilities above of £667,000 (2002: £330,000, 2001: £161,000) were recognised in the financial statements, the net effect of this change on shareholders' funds and the profit and loss reserve would be nil (2002: a reduction of £120,000, 2001: a reduction of £161,000).

Contributions to the scheme in respect of 2003 amounted to £54,000 (2002: £32,125, 2001: £30,098) and withdrawals amounted to £131,000 (2002: nil).

The movements in the net recognisable deficits in 2003 were as follows:

	2003 £'000	2002 £'000
Net recognisable deficits 1 January 2003	(440)	(215)
Exchange differences	58	37
Current service cost	(165)	(183)
Expected return on scheme assets	10	11
Interest on scheme liabilities	(29)	(32)
Company contributions	54	32
Company withdrawals	(131)	-
Actuarial losses	(24)	(90)
Net recognisable deficits 31 December 2003	(667)	(440)

B.A.T Services Limited

Notes to the accounts – 31 December 2003

If FRS 17 had been applied, the following amounts would have been included in the profit and loss account and statement of total recognised gains and losses for 2003:

Profit and loss account	2003	2002
	£'000	£'000
Operating profit		
– current service cost	165	183
Total operating charge	165	183
Other finance income/(charge)		
– expected return on scheme assets	10	11
– interest on scheme liabilities	(29)	(32)
Net return	(19)	(21)

Statement of total recognised gains and losses	2003	2002
	£000	£000
Difference between actual and expected return on scheme assets	(6)	10
Experience losses on scheme liabilities	(18)	(98)
Changes in assumptions underlying present value of scheme liabilities	-	(2)
Net actuarial loss before related deferred tax	(24)	(90)

Details of experience gains and losses for the year to 31 December 2003:

	2003		2002	
	£'000	%	£'000	%
Difference between expected and actual return on scheme assets	(6)		10	
– percentage of scheme assets		2%		2%
Experience losses on scheme liabilities	(18)		(98)	
– percentage of present value of scheme liabilities		2%		11%
Net actuarial loss	(24)		(90)	
– percentage of present value of scheme liabilities		2%		10%

18 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.

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 2003

20 Parent support

The 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.

21 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