B.A.T. China Limited

Registered Number 00134409

Annual report and financial statements

For the year ended 31 December 2020

Contents

Strategic report

The Directors present their strategic report on B.A.T. China Limited (the "Company") for the year ended 31 December 2020.

Principal activities

The principal activity of the Company is the marketing of tobacco products of the British American Tobacco p.l.c. group of companies (the "Group") for domestic sales through the Company's branch in China.

Review of the year ended 31 December 2020

The profit for the financial year attributable to B.A.T. China Limited shareholders after deduction of all charges and the provision of taxation amounted to £9,585,000 (2019: £10,265,000).

In August 2020, CTBAT International Limited ("CTBAT"), the Company's joint venture, filed a capital reduction resolution to HK legal authorities, which was approved in October 2020. As a result of the capital reduction, CTBAT would return to the Company an amount of USD 85,500,000 from its original investment, that the Company has recognised are amounts to be received in its 2020 accounts.

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

Post balance sheet events

In March 2021, CTBAT has paid to the Company the amount of USD 85,500,000, representing return on investment, that was presented as amounts to be received in 2020 accounts.

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 2020 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 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 the marketing of tobacco products for domestic sales through the Company's branch in China.

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 assessments throughout the year.

The Company's key stakeholders are direct and indirect suppliers to the Company (including product materials suppliers and goods and services suppliers), customers of the Company (including distributors, wholesalers and retailers), employees (the Company has around 6 employees with the majority based in China),

Strategic Report (continued)

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

governments and 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 external stakeholders are summarised at pages 82 to 83 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 understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making. During the decision-making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

Throughout the COVID-19 pandemic, the Group's priority has been to safeguard the welfare of Group company employees while ensuring that the Group continues to operate effectively. A range of dynamic internal communications were facilitated during the year to help Group company employees feel connected and supported during the pandemic. The primary engagement channels for Group company employees (including the Company's employees) include town hall sessions, the 'Your Voice' employee survey and webcasts implemented as appropriate for the location of employees. In view of restrictions in place as a result of the COVID-19 pandemic, engagement sessions were held through virtual forums for the majority of the year. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 57 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 page 48 of the BAT Annual Report. As a Group company, the Company acts in accordance with the Group's policies in relation the safeguarding of human rights and community relationships, which are set out at page 48 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, including on directors' duties under Section 172 of the Companies Act. Director training is provided through the Company Secretary.

By Order of the Board

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Mr P. McCormack
Secretary

28 June 2021

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2020.

Dividends

The Directors do not recommend the payment of a dividend for the year (2019: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2020 to the date of this report are as follows:

Hardeep Khangura	
Belinda Joy Ross	
David Patrick Ian Booth	
Noelle Colfer	(Resigned 31 March 2020)
Bassem Bekdache	(Appointed 24 September 2020)

Research and development

No research and development expenditure has been incurred during the year (2019: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: £nil).

Employees

The average number of employees employed by the Company during the year was 6 (2019: 12).

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.

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:

- 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.

Directors' report (continued)

Statement of Directors' responsibilities (continued)

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

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Mr P. McCormack
Secretary

28 June 2021

Independent Auditor's Report to the members of B.A.T. China Limited

Opinion

We have audited the financial statements of B.A.T. China Limited ("the Company") for the year ended 31 December 2020 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 2020 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").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Independent Auditor's Report to the members of B.A.T. China Limited (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as pension assumptions.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue accounts which are not expected to be posted manually, that contained key words in the description, users who only posted one entry for the fiscal year, and those posted with an unusual combination

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of noncompliance alone could have a material effect on amounts or disclosures in the financial statements.

Independent Auditor's Report to the members of B.A.T. China Limited (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 director's 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.

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 4 and 5 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.

Independent Auditor's Report to the members of B.A.T. China Limited (continued)

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.

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.

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Natalia Bottomley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London. E14 5GL

28 June 2021

Profit and loss account for the year ended 31 December

	Note	2020 £'000	2019 £'000
Turnover	2	**7,927**	7,527
Cost of Sales	3	**(3,614)**	(3,786)
Other operating income	2	**3,007**	-
Other operating expenses	3	**(7,991)**	(6,636)
Operating loss		**(671)**	(2,895)
Income from shares in joint ventures	4	**17,957**	17,056
Interest payable and similar expenses	5	**(7,684)**	(4,351)
Interest receivable and similar income	6	**-**	147
Profit before taxation		**9,602**	9,957
Tax on profit	7	**(17)**	308
Profit for the financial year		**9,585**	10,265

Statement of other comprehensive income for the year ended 31 December

	2020 £'000	2019 £'000
Profit for the financial year	**9,585**	10,265
Exchange difference on translation	**113**	(3,602)
Total other comprehensive income for the financial year	**9,698**	6,663

Statement of changes in equity for the year ended 31 December

	Called up share capital £'000	Profit and loss account £'000	Other reserves £'000	Total Equity £'000
1 January 2019	**97,389**	**(684)**	**-**	**96,705**
Reclassification	-	(12,495)	12,495	-
Profit for the financial year	-	10,265	-	10,265
Exchange differences on translation	-	-	(3,602)	(3,602)
31 December 2019 *Revised	**97,389**	**(2,914)**	**8,893**	**103,368**
Profit for the financial year	-	9,585	-	9,585
Exchange differences on translation	-	-	113	113
31 December 2020	**97,389**	**6,671**	**9,006**	**113,066**

* During the year the presentation of the exchange difference on translation previously presented in Profit and loss account was revised and presented in Other reserves.

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

Balance sheet as at 31 December

	Note	**2020**	2019 *Revised
		£'000	£'000
Fixed assets			
Tangible assets	8	**58**	102
Investment in joint venture	9	**60,537**	127,061
		60,595	127,163
Current assets			
Debtors: amounts falling due within one year	10a	**67,794**	2,189
Cash at bank and in hand		**235**	282
		68,029	2,471
Debtors: amounts falling due after one year	10b	**400**	410
Creditors: amounts falling due within one year	11	**(15,951)**	(26,642)
Net current assets/(liabilities)		**52,478**	(23,761)
Creditors: amounts falling due after one year		**(7)**	(34)
Net assets		**113,066**	103,368
Capital and reserves			
Called up share capital	12	**97,389**	97,389
Profit and loss account		**6,671**	(2,924)
Other reserves		**9,006**	8,903
Total shareholders' funds		**113,066**	103,368

* During the year the presentation of the exchange difference on translation previously presented in Profit and loss account was revised and presented in Other reserves.

The financial statements on pages 10 to 21 were approved by the Directors on 28 June 2021 and signed on behalf of the Board.

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Mr. D.P.I Booth
Director

Registered number 00134409

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

Notes to the financial statements for the year ended 31 December 2020

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 ('the Act') 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 accounting standards in conformity with the requirements of the Act, but makes amendments where necessary in order to comply with the Act, and where advantage of disclosure exemptions available under FRS 101 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.

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 amounts to be recognised in respect of taxation and legal matters; and
- the classification of an investment as a joint venture.

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 judgement 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 Sterling. Turnover and profits expressed in currencies other than sterling are translated into sterling using exchange rates applicable to the dates of the underlying transactions. Monetary assets and liabilities are translated at closing rates of exchange.

The Company operates a branch in Hong Kong which has a functional currency of Hong Kong Dollars, and the results of the branch are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions.

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 liabilities at the beginning of the year.

Exchange differences arising on the retranslation of certain monetary assets and liabilities between the Company and its branch, which qualify to be treated as net investments in a foreign operation, are translated at the exchange rate ruling at the end of the year and are 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 2020

1 Accounting policies (continued)

Turnover

Turnover principally comprises sales of cigarettes and other tobacco products to external customers. Turnover excludes duty, excise and other taxes and is stated after deducting rebates, returns and other similar discounts, and payments to direct and indirect customers.

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.

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.

Group relief

As a UK resident wholly-owned subsidiary of the Group, the Company is eligible to surrender tax losses to, or claim tax losses from, fellow members of the same UK group for the purposes of calculating corporation tax due in the UK ("group relief").

It is Group policy that tax losses are surrendered unless the entity generating the losses has a particular requirement to carry the losses forward. It is also Group policy not to reimburse entities for group relief surrendered unless, on a stand-alone basis and assuming the entity were not in the Group, those losses are judged to have value to the entity generating the loss.

Investments in Group Companies

As permitted by IFRS 9 *Financial Instruments*, Investments in Group companies, including subsidiaries, associates and joint ventures, are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, where appropriate.

Joint ventures comprise contractual arrangements where two or more parties have joint control, where decisions regarding the relevant activities of the entity require unanimous consent and where the parties to the arrangement have rights to the net assets of the arrangement.

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%.

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.

Notes to the financial Statements for the year ended 31 December 2020

1 Accounting policies (continued)

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 in note 8 and the liabilities included as part of creditors in note 11. Total assets and total equity and liabilities on 1 January 2019 were both increased by £86,000.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. 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.

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.

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 2020

1 Accounting policies (continued)

Financial instruments

The Company's business model for managing financial assets is set out in the BAT 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.

Financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable. The Company's financial assets consist of cash and debtors, including loans (debentures) and trade receivables, amounts owed by Group undertakings and other debtors. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently carried at amortised cost.

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

Impairment of financial assets held at amortised cost

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on initial recognition of the underlying asset. As permitted by IFRS 9 *Financial Instruments*, loss allowances on trade receivables arising from the recognition of revenue under IFRS 15 *Revenue from Contracts with Customers* are initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

Retirement benefits

The Company participates in several pension schemes, the largest of which is a Group pension scheme operated by British American Tobacco (Hong Kong) Limited ("HKL"), a fellow subsidiary company incorporated in Hong Kong. HKL is deemed to be the sponsoring employer of this scheme under IAS 19 and accounts for the scheme assets and liabilities in full. The Company is recharged costs equivalent to its share of contributions to the scheme as and when called upon to do so by HKL. The Company is unable to identify its share of the underlying assets and liabilities of the schemes sponsored by HKL and therefore, does not recognise any share of any surplus or deficit in respect of these.

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

Notes to the financial Statements for the year ended 31 December 2020

2 Turnover

Turnover comprises the domestic sales of tobacco products in China.
Other operating income consists mainly of recharges to other fellow group undertakings.

3 Other operating expenses

	2020 £'000	2019 £'000
Cost of sales		
Purchases of goods for resale	**3,614**	3,786
	3,614	3,786
Other operating expenses comprise:		
Staff costs	**984**	1,889
Exchange (gain)/loss	**(194)**	56
Depreciation of tangible assets	**44**	41
Restructuring cost	**-**	355
Auditor remuneration:		
- For the audit of the financial statements	**38**	29
- Other taxation advisory services	**8**	4
Other	**7,111**	4,262
	7,991	6,636

Staff costs:	2020 £'000	2019 £'000
Wages and salaries	**849**	1,645
Social security costs	**94**	163
Defined contribution scheme costs (note 13)	**41**	81
	984	1,889

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

	2020 Number	2019 Number
Number of employees	**6**	12

None of the Directors received any remuneration in respect of their services as a director of the Company during the year (2019: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of the Directors overall management responsibilities within the Group.

4 Income from shares in joint ventures

	2020 £'000	2019 £'000
Income from shares in joint ventures	**17,957**	17,056
	17,957	17,056

The income from shares in joint ventures is received from the joint venture company with the China National Tobacco Corporation: CTBAT International Limited (CTBAT).

Notes to the financial statements for the year ended 31 December 2020

5 Interest payable and similar expenses

	2020	2019
	£'000	£'000
Interest payable and similar charges	**7,684**	4,351
	7,684	4,351

6 Interest receivable and similar income

	2020	2019
	£'000	£'000
Interest receivable and similar income	**-**	74
Other income	**-**	73
	-	147

7 Taxation

(a) Recognised in the profit and loss account

	2020	2019
	£'000	£'000
Foreign tax		
Current tax on income for the period	**17**	(308)
Total tax expense/(income)	**17**	(308)

Notes to the financial statements for the year ended 31 December 2020

7 Taxation (continued)

(b) Factors affecting the taxation charge

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, after the balance sheet date. This will increase the company's future current tax charge accordingly.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2019: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2020	2019
	£'000	£'000
Profit for the year	**9,585**	10,265
Total tax expense/(credit)	**17**	(308)
Profit excluding taxation	**9,602**	9,957
Tax using the UK corporation tax rate of 19% (2019: 19%)	**1,824**	1,892
Expenses non deductible	**26**	54
Income non taxable	**(3,491)**	(3,241)
Transfer pricing adjustment	**(2)**	(2)
Overseas taxation	**17**	(308)
Overseas branch profit exemption	**1,641**	1,309
Group relief surrendered/(claimed) for nil consideration	**2**	(12)
Total tax expense/(credit)	**17**	(308)

8 Tangible assets

	Fixtures, fittings and equipment	**Motor vehicles**	**Leasehold Asset**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
1 January 2020	22	46	86	154
Difference on exchange	-	(2)	(2)	(4)
31 December 2020	**22**	**44**	**84**	**150**
Accumulated depreciation				
1 January 2020	13	12	27	52
Depreciation charged during the year	6	11	27	44
Difference on exchange	(1)	(1)	(2)	(4)
31 December 2020	**18**	**22**	**52**	**92**
Net book value				
1 January 2020	9	34	59	102
31 December 2020	**4**	**22**	**32**	**58**

Notes to the financial statements for the year ended 31 December 2020

9 Investments

Shares in Joint venture

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
29/F, Oxford House, 979 King's Road, Taikoo Place, Quarry Bay, Hong Kong				
CTBAT International Limited	Ordinary shares	50.00	0.00	50.00

	Investment £'000
Investment	
1 January 2020	127,061
Return of investment	(63,204)
Differences on exchange	(3,320)
31 December 2020	**60,537**

During 2013 the Company, through its branch, entered into a joint venture agreement with China National Tobacco Corporation (CNTC) to create CTBAT International Limited ("CTBAT"), a company incorporated in Hong Kong. CTBAT manages the worldwide international cigarette trademarks State Express 555 and Shuang Xi.

During 2020, CTBAT reduced its share capital, and returned to the Company the equivalent of USD 85,500,000.

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

10 (a) Debtors: amounts falling due within one year

	2020	2019
	£'000	£'000
Amounts owed by CTBAT	**63,204**	-
Trade debtors	**2,312**	1,501
Amounts owed by Group undertakings	**2,197**	541
Other debtors	**81**	147
	67,794	2,189

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.
Amounts owed by CTBAT represent the return of investment, following capital reduction in CTBAT.

10 (b) Debtors: amounts falling due after one year

	2020	2019
	£'000	£'000
Membership debentures	**400**	410
	400	410

Notes to the financial statements for the year ended 31 December 2020

11 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	**1,428**	1,138
Amounts owed to Group undertakings	**14,316**	25,207
Taxation and social security	**5**	4
Accruals and deferred income	**202**	62
Other	**-**	231
	15,951	26,642

Included within amounts owed to Group undertakings is an amount of £12,951,000 (2019: £25,207,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on HKD LIBOR. All other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

12 Called up share capital

Ordinary shares of £1 each	**2020**	2019
Allotted, called up and fully paid		
- value	**£97,388,714**	£97,388,714
- number	**97,388,714**	97,388,714

13 Retirement benefits

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

British American Tobacco Company (Hong Kong) Limited is deemed to be the sponsoring employer of this scheme under IAS 19 and accounts for the scheme assets and liabilities in full. The Company is recharged costs equivalent to its share of contributions to the scheme as and when called upon to do so by HKL. The Company is unable to identify its share of the underlying assets and liabilities of the schemes sponsored by HKL and therefore, do not recognise any share of any surplus or deficit in respect of these.

The main pension scheme operated in Hong Kong is a defined benefit externally funded scheme which provides a lump sum on retirement or leaving service. Contributions to the scheme are made in accordance with the advice of Watson Wyatt Hong Kong Limited, an independent qualified actuary. The most recent actuarial valuation was made as at 31 December 2020 and showed a surplus of £ 1,359,017 (2019: £1,126,505) under the projected unit method. The main assumptions used were that salaries will increase by 3.5% (2019: 3.5%) per annum, a general inflation rate of 2.0% (2019: 2.5%) per annum and a discount rate of 0.2% (2019: 1.7%).

The total net pension cost for the Company for 2020 was £nil (2019: £nil).
The Company also operates a defined contribution scheme, the costs for which amounted to £41,334 (2019: £80,746).

At 31 December 2020 there were amounts of £nil (2019: £nil) prepaid and £nil (2019: £nil) outstanding in respect of defined contribution schemes.

Notes to the financial statements for the year ended 31 December 2020

14 Related party disclosures

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

	2020	2019
	£'000	£'000
Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group		
Royalty expenses	**-**	753

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

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.

15 Parent undertakings

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

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