British American Tobacco Taiwan Logistics Limited

Registered Number 06201979

Annual report and financial statements

For the year ended 31 December 2020

Contents

Strategic report

The Directors present their strategic report on British American Tobacco Taiwan Logistics Limited (the “Company”) for the year ended 31 December 2020.

Principal activities

The principal activity of the Company is the distribution of tobacco products through the Company’s branch in Taiwan. The Company’s branch sells the products to a member of the British American Tobacco p.l.c. group of companies (the “Group”) for further distribution.

Review of the year ended 31 December 2020

The profit for the financial year attributable to British American Tobacco Taiwan Logistics Limited shareholders after deduction of all charges and the provision of taxation amounted to £953,000 (2019: £2,592,000).

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

Key performance indicators

Given the nature of the Company’s activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.’s 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 principal activity of the Company is the distribution of tobacco products through the Company’s branch in Taiwan. The Company’s branch sells the products to a member of the Group for further distribution.

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

The Company’s key stakeholders are direct and indirect suppliers to the Company (including leaf suppliers, product materials suppliers and goods and services suppliers), customers of the Company (including distributors, wholesalers and retailers), employees (the Company has around 13 employees based in Taiwan), governments and wider society in countries in which the Company operates and the Company’s shareholder. Whilst the Company does not supply products directly to consumers, consumers of the Group’s tobacco products are indirectly key stakeholders of the Company. Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key 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

Strategic report (continued)

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

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, employee council meetings, 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 to 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.

The principal decision made by the Directors during the year included review and approval of a dividend payment. An example of how stakeholder considerations and other relevant factors have been taken into account during the decision-making process in these contexts are as follows: The Directors reviewed and approved a dividend payment to the shareholder as set out in the Directors' Report below. The Board considered, amongst other relevant factors, the Company's capital position, the amount of its distributable reserves, its cash position, the Company's actual and contingent liabilities and its ability to pay its debts as they fell due.

By Order of the Board

DocuSigned by:

E28C712D61F0440...

Mr P McCormack
Secretary **30 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

During the year the Company paid dividends amounting to £2,657,000 (2019: £602,000).

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:

David Patrick Ian Booth	
Carola Wiegand	
Noelle Colfer	(resigned: 31 March 2020)
Gregory Aris	(appointed: 22 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 13 (2019: 13).

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.

Financial risk management

The Company's operations expose it to a currency risk as part of its purchases and operating expenses are denominated in foreign currencies. The exposure is partially hedged with forward foreign exchange contracts.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report on page 2 and 3 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company.

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 82 to 83 of the BAT Annual Report.

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Directors' report (continued)

Statement of directors' responsibilities (continued)

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.

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 Annual report confirms that:

(a) to the best of his knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and

(b) he has taken all steps that a Director might reasonably be expected to have taken in order to make himself aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

DocuSigned by:

E28C712D61F0440...

Mr P McCormack
Secretary

30 June 2021

Independent Auditor's Report to the members of British American Tobacco Taiwan Logistics Limited

Opinion

We have audited the financial statements of British American Tobacco Taiwan Logistics 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 British American Tobacco Taiwan Logistics 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, in particular 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. On this audit we do not believe there is a fraud risk related to revenue recognition because all sales are to a related company.

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 British American Tobacco Taiwan Logistics 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 British American Tobacco Taiwan Logistics 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.

DocuSigned by:

AC0B2E3C647841B...

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

Chartered Accountants
15 Canada Square
London. E14 5GL

30 June 2021

Profit and loss account for the year ended 31 December

	Note	2020 £'000	2019 £'000
Turnover	2	**42,513**	32,708
Cost of sales	3	**(37,566)**	(27,749)
Operating expenses	3	**(3,656)**	(1,460)
Operating Profit		**1,291**	3,499
Interest payable and similar expenses	4	**(41)**	(36)
Profit before taxation		**1,250**	3,463
Taxation on Profit	5	**(297)**	(871)
Profit for the financial year		**953**	2,592

Statement of comprehensive income for the year ended 31 December

	2020 £'000	2019 £'000
Profit for the financial year	**953**	2,592
Actuarial loss arising on defined benefit pension scheme	**(17)**	(8)
Deferred tax on actuarial loss	**4**	-
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	**(16)**	(17)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	**144**	(9)
Effective portion of changes in fair value of cash flow hedges	**(387)**	(637)
Net change in fair value of cash flow hedges reclassified to profit or loss	**3**	(45)
Deferred tax on changes on fair value of cash flow hedge reserves	**138**	136
Total comprehensive income for the financial year	**822**	2,012

The accompanying notes are an integral part of the financial statements

Statement of changes in equity for the year ended 31 December

	Called up share capital	Other reserves	Profit and loss account	Cash flow hedge reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
1 January 2019	**-**	**-**	**701**	**300**	**1,001**
Reclassification		609	(609)	-	-
Profit for the financial year		-	2,592	-	2,592
Dividends paid		-	(602)	-	(602)
		609	**2,082**	**300**	**2,991**
Other comprehensive income					
Actuarial loss arising on defined benefit pension scheme	-	-	(8)	-	(8)
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	-	(17)	-	-	(17)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	-	(9)	-	-	(9)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(637)	(637)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	-	(45)	(45)
Deferred tax on effective portion of cash flow hedge reserves	-	-	-	136	136
31 December 2019 Revised*	**-**	**583**	**2,074**	**(246)**	**2,411**
Profit for the financial year	-	-	953	-	953
Dividends paid	-	-	(2,657)	-	(2,657)
	-	**583**	**370**	**(246)**	**707**
Other comprehensive income					
Actuarial loss arising on defined benefit pension scheme			(17)	-	(17)
Deferred tax on actuarial loss			4	-	4
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange		(16)	-	-	(16)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year		144	-	-	144
Effective portion of changes in fair value of cash flow hedges		-	-	(387)	(387)
Net change in fair value of cash flow hedges reclassified to profit or loss		-	-	3	3
Deferred tax on effective portion of cash flow hedge reserves		-	-	138	138
31 December 2020		**711**	**357**	**(492)**	**576**

*The revision of the 2019 financial statements is due to reclassification of foreign currency translation reserves from Profit and loss account to 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			
Intangible assets		**7**	12
Tangible assets	6	**-**	6
Current assets			
Stock	7	**3,972**	3,589
Debtors: amounts falling due within one year	8	**12,343**	8,925
Cash at bank and in hand		**22**	49
Derivative financial assets	13	**28**	44
Debtors: amounts falling after one year	9	**996**	517
		17,361	13,124
Creditors: amounts falling due within one year	10	**(15,726)**	(10,073)
Derivative financial liabilities	13	**(737)**	(362)
Net current assets		**898**	2,689
Total assets less total liabilities excluding pensions deficit		**905**	2,707
Pensions deficit	12	**(329)**	(296)
Total assets less total liabilities including pensions deficit		**576**	2,411
Capital and reserves			
Called up share capital	11	**-**	-
Other reserves		**711**	583
Profit and loss account		**357**	2,074
Cash flow hedge reserve		**(492)**	(246)
Total shareholders' funds		**576**	2,411

*The revision of the 2019 financial statements is due to reclassification of foreign currency translation reserves from Profit and loss account to Other reserves.

The financial statements on pages 10 to 24 were approved by the Directors on 30 June 2021 and signed on behalf of the Board.

DocuSigned by:

E3320C6CB953417...

Mr D.P.I. Booth
Director

Registered number 06201979

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 such as the preparation of a cash flow statement or disclosures regarding financial instruments and transactions with related parties, have been taken.

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

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 assets;
- the estimation of and accounting for retirement benefits costs;
- the estimation of amounts to be recognised in respect of taxation.

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

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

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

1 Accounting policies (continued)

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 Taiwan which has a functional currency of Taiwanese 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.

Forward contracts are used by the branch to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes. The forward contracts are accounted for in the financial statements where the underlying transactions have occurred by the balance sheet date. As required by the Companies Act 2006, the fair value of all forward contracts outstanding at year end is disclosed in note 13.

Turnover

Turnover principally comprises sales at invoiced value (excluding duty, excise and other taxes) and is after deducting rebates, returns and similar discounts, and is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Turnover and Income is recognised in the profit and loss account when all contractual or other applicable conditions for recognition have been met.

Operating expenses

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

Taxation

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

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

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

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

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

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

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

1 Accounting policies (continued)

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.

Tangible assets

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

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

Stock

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

Financial instruments

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 assets and financial liabilities are initially recognised at fair value, plus directly attributable transaction costs where applicable, with subsequent measurement as set out below.

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the profit and loss account. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the profit and loss account in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the profit and loss account in the same periods as the hedged item;
- for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the profit and loss account in the period in which they arise.

In order to qualify for hedge accounting, the Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

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

1 Accounting policies (continued)

Financial instruments

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the profit and loss account in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately reclassified to the profit and loss account.

Derivative fair value changes recognised in the profit and loss account are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.

Impairment of financial assets

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, via its branch in Taiwan, operates both a defined contribution scheme and an unfunded defined benefit scheme. Payments in respect of defined contribution schemes are charged as an operating expense as they fall due.

For defined benefit schemes, pension net surpluses or deficits as of the balance sheet date are recognised in full as an asset or liability respectively. The net deficit or surplus is based on the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised as they are incurred in the statement of total recognised gains and losses. The actuarial cost charged to operating profit consists of current service cost, past service costs and gains or losses on settlements and curtailments. The interest cost is recognised in other financing costs.

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 and the liabilities included as part of borrowings. Total assets and total equity and liabilities on 1 January 2019 have both increased by £20,000.

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.

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

1 Accounting policies (continued)

Leases (continued)

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

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

2 Turnover

	2020	2019
	£'000	£'000
Gross turnover	**235,190**	182,184
Government levies	**(192,677)**	(149,476)
Turnover	**42,513**	32,708

Turnover comprises the sale of tobacco products to another Group undertaking in Taiwan.

3 Other operating expenses

	2020	2019
	£'000	£'000
Cost of sales:		
Purchases of goods for resale	**38,353**	28,488
Change in stocks of finished goods and goods for resale	**(787)**	(739)
	37,566	27,749
Other operating expenses comprise:		
Staff costs	**738**	1,095
Depreciation of tangible fixed assets	**1**	47
Operating lease charges: buildings	**286**	204
Audit services and consultancy fees	**9**	9
Other	**2,622**	105
	3,656	1,460

	2020	2019
Staff costs:	**£'000**	£'000
Wages and salaries	**670**	864
Social security costs	**43**	142
Defined contribution scheme costs (note 12)	**20**	23
Defined benefit scheme treated as defined contribution scheme (note 12)	**5**	6
Share Bonus Plan Scheme	**-**	60
	738	1,095

None of the Directors received any remuneration in respect of their services to 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.

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

3 Other operating expenses (continued)

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

	2020 Number	2019 Number
Administration	**3**	3
Marketing	**10**	10
	13	13

4 Interest payable and similar expenses

	2020 £'000	2019 £'000
Bank loan interest	**41**	36
	41	36

5 Taxation

(a) Recognised in the profit and loss account

	2020 £'000	**£'000**	2019 £'000	£'000
Foreign tax				
Current tax on income for the period	**641**		1,025	
Prior tax on income for the period	**(20)**			
Total current tax		**621**		1,025
Foreign Deferred tax				
Origination and reversal of temporary differences	**(324)**		(154)	
Total deferred tax		**(324)**		(154)
Total income tax expense		**297**		871

(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 £'000	2019 £'000
Profit for the year	**953**	2,592
Total tax expense	**297**	871
Profit excluding taxation	**1,250**	3,463
Tax using the UK corporation tax rate of 19% (2019: 19%)	**237**	658
Transfer pricing	**(2)**	(2)
Non–deductible expenses	**5**	8
Income non - taxable	**(1)**	(24)
Foreign deferred tax	**(324)**	(154)
Foreign tax suffered	**641**	1,025
Prior year adjustment	**(20)**	-
Group relief surrendered	**2**	2
Overseas branch exemption	**(241)**	(642)
	297	871

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

6 Tangible assets

	Leasehold Asset £'000	Total £'000
Cost		
1 January 2020	19	19
Exchange differences	1	1
Disposal	(20)	(20)
31 December 2020	**-**	**-**
Accumulated depreciation		
1 January 2020	13	13
Charge in the year	1	1
Exchange difference	1	1
Disposal	(15)	(15)
31 December 2020	**-**	**-**
Net book value		
1 January 2020	6	6
31 December 2020	**-**	**-**

7 Stock

	2020 £'000	2019 £'000
Finished goods and goods for resale	**3,972**	3,589

8 Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	**10,956**	8,300
Trade debtors	**1,193**	430
Other debtors	**194**	195
	12,343	8,925

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

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

9 Debtors: amounts falling due after one year

	2020	2019
	£'000	£'000
Deferred tax asset	**996**	517
	996	517

Deferred tax asset

Deferred taxation asset	**£'000**
1 January 2020	517
Deferred Tax Recognised in the profit and loss (note 5)	324
Deferred Tax Cash Flow Hedge Reserve	138
Exchange difference	17
31 December 2020	**996**

Breakdown of deferred tax asset

	1 January 2020 £'000	**Recognised in income statement £'000**	**Recognised in equity £'000**	**Exchange difference £'000**	**31 December 2020 £'000**
Stocks	386	166	-	14	566
IAS 19 Cost	83	1	-	3	87
Pensions	7	5	-	-	12
Unrealised gains and losses	(24)	152	-	-	128
Cash flow hedge reserves	65	-	138	-	203
	517	**324**	**138**	**17**	**996**

10 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Short-term loan	**5,124**	965
Trade creditors	**2,609**	1,562
Amounts owed to Group undertakings	**3,197**	3,036
Duties excise and other taxes	**644**	786
Overseas taxation	**199**	559
Deferred tax	**1**	-
Leasehold liabilities	**-**	6
Accruals and deferred income	**3,952**	3,159
	15,726	10,073

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

Deferred tax liability has been recognised in Other comprehensive income.

11 Called up share capital

Ordinary shares of £1 each	**2020**	2019
Allotted, called up and fully paid		
- value	**£2**	£2
- number	**2**	2

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

12 Retirement benefits

The Company does not participate in any United Kingdom pension schemes. However, its branch in Taiwan operates both a defined contribution scheme and an unfunded defined benefit scheme. The latter arises from undertakings to provide pension benefits to certain employees who have transferred from a fellow Group undertaking operating in Taiwan.

Defined contribution scheme

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

The defined contribution pension cost charged to the profit and loss account was £20,000 (2019: £23,000).

At 31 December 2020 there were amounts of £193,986 (2019: £187,600) outstanding in respect of defined contribution schemes.

Defined benefit scheme

The Company's branch in Taiwan has operated an unfunded defined benefit scheme since 2008, which provides a lump sum on retirement or leaving service. An actuarial valuation of the scheme as at 31 December 2020 was performed by PACT Co. Ltd, an independent actuary.

The amounts recognised in the balance sheet are determined as follows:

	2020	2019
	Unfunded schemes £'000	Unfunded schemes £'000
Present value of unfunded scheme liabilities	**(329)**	(296)
Net Deficit	**(329)**	(296)

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

	2020 £'000	2019 £'000
Defined benefit schemes		
Service cost		
– current service cost	**(2)**	(2)
– past service cost	**-**	-
Net interest on the net defined benefit liability		
– interest on scheme liabilities	**(3)**	(4)
Total amount recognised in the income statement (note 3)	**(5)**	(6)

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

12 Retirement benefits (continued)

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

	2020	2019
	£'000	£'000
Actuarial losses on scheme liabilities	**(17)**	(8)
Net actuarial losses in other comprehensive income	**(17)**	(8)

Movements in scheme liabilities are as follows:

	2020	2019
	£'000	£'000
Present value at 1 January	**(296)**	(284)
Exchange differences	**(11)**	2
Current service cost	**(2)**	(2)
Past service costs	**-**	-
Settlements and curtailments	**-**	-
Interest on scheme liabilities	**(3)**	(4)
Actuarial losses	**(17)**	(8)
Present value at 31 December	**(329)**	(296)

Scheme liabilities by scheme membership:

	2020	2019
Active members	**6**	6

Scheme liabilities by benefits earned to date:

	2020	2019
	£'000	£'000
Guaranteed benefits	**(329)**	(296)

Actuarial losses shown above can be analysed as follows:

	2020	2019
	£'000	£'000
Actuarial loss:		
- arising from changes in demographic assumptions	**(24)**	(3)
- arising from changes in financial assumptions	**(1)**	(14)
Experience losses	**8**	9
Total	**(17)**	(8)

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

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

12 Retirement benefits (continued)

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

	2020	2019
	%	%
Rate of increase in salaries	4%	4%
Discount rate	0.5%	1%

	2020	2019
	Funded	Funded
Weighted average duration of liabilities	**15.1**	15.9

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

	2020	2019
	Years	Years
Member age 65 (current life expectancy)		
- male	18.3	18.3
- female	21.5	21.5
Member age 45 (life expectancy at age 65)		
- male	39.6	39.6
- female	34.6	34.6

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by 0.25 percent:

	2020		2019	
	0.25 percentage point increase	**0.25 percentage point decrease**	0.25 percentage point increase	0.25 percentage point decrease
	£'000	**£'000**	£'000	£'000
Discount rate	(12,040)	12,620	(11,165)	11,716
Salary increase	12,012	(11,534)	11,210	(10,750)

13 Financial instruments

Derivative financial instruments

	2020	**2020**	2019	2019
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Cash flow hedges	**28**	**(737)**	44	(362)
Current	**28**	**(737)**	44	(362)

The Company's operations expose it to currency risk as acquisitions of finished goods are denominated in foreign currencies. The exposure is hedged with forward foreign exchange contracts.

14 Related party disclosures

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

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 International Holdings (UK) 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